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RUSSIAN PUBLIC FINANCE DURING
THE WAR

ECONOMIC AND SOCIAL HISTORY
OF THE WORLD WAR

JAMES T. SHOTWELL, LL.D., *General Editor.*

RUSSIAN SERIES

SIR PAUL VINOGRADOFF, F.B.A., *Editor,*
(died, December 19, 1925.)

MICHAEL T. FLORINSKY, M.A., *Associate Editor.*

*For complete List of Editors, Publishers, and Outline of Plan
see end of this volume.*

RUSSIAN PUBLIC FINANCE DURING THE WAR

REVENUE AND EXPENDITURE

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EDITOR'S PREFACE

IN the autumn of 1914, when the scientific study of the effects of war upon modern life passed suddenly from theory to history, the Division of Economics and History of the Carnegie Endowment for International Peace proposed to adjust the program of its researches to the new and altered problems which the War presented. The existing program, which had been prepared as the result of a conference of economists held at Berne in 1911, and which dealt with the facts then at hand, had just begun to show the quality of its contributions; but for many reasons it could no longer be followed out. A plan was therefore drawn up at the request of the Director of the Division, in which it was proposed, by means of an historical survey, to attempt to measure the economic cost of the War and the displacement which it was causing in the processes of civilization. Such an "Economic and Social History of the World War," it was felt, if undertaken by men of judicial temper and adequate training, might ultimately, by reason of its scientific obligations to truth, furnish data for the forming of sound public opinion, and thus contribute fundamentally toward the aims of an institution dedicated to the cause of international peace.

The need for such an analysis, conceived and executed in the spirit of historical research, was increasingly obvious as the War developed, releasing complex forces of national life not only for the vast process of destruction, but also for the stimulation of new capacities for production. This new economic activity, which under normal conditions of peace might have been a gain to society, and the surprising capacity exhibited by the belligerent nations for enduring long and increasing loss—often while presenting the outward semblance of new prosperity—made necessary a reconsideration of the whole field of war economics. A double obligation was therefore placed upon the Division of Economics and History. It was obliged to concentrate its work upon the problem thus presented, and to study it as a whole; in other words, to apply to it the tests and disciplines of history. Just as the War itself was a single event, though penetrating by seemingly unconnected ways to the remotest parts of the world, so the analysis of it must be developed

according to a plan at once all embracing and yet adjustable to the practical limits of the available data.

During the actual progress of the War, however, the execution of this plan for a scientific and objective study of war economics proved impossible in any large and authoritative way. Incidental studies and surveys of portions of the field could be made and were made under the direction of the Division, but it was impossible to undertake a general history for obvious reasons. In the first place, an authoritative statement of the resources of belligerents bore directly on the conduct of armies in the field. The result was to remove as far as possible from scrutiny those data of the economic life of the countries at war which would ordinarily, in time of peace, be readily available for investigation. In addition to this difficulty of consulting documents, collaborators competent to deal with them were for the most part called into national service in the belligerent countries and so were unavailable for research. The plan for a war history was therefore postponed until conditions should arise which would make possible not only access to essential documents, but also the coöperation of economists, historians, and men of affairs in the nations chiefly concerned, whose joint work would not be misunderstood either in purpose or in content.

Upon the termination of the War, the Endowment once more took up the original plan, and it was found with but slight modification to be applicable to the situation. Work was begun in the summer and autumn of 1918. In the first place a final conference of the Advisory Board of Economists of the Division of Economics and History was held in Paris, which limited itself to planning a series of short preliminary surveys of special fields. Since, however, the purely preliminary character of such studies was further emphasized by the fact that they were directed more especially toward those problems which were then fronting Europe as questions of urgency, it was considered best not to treat them as part of the general survey, but rather as of contemporary value in the period of war settlement. It was clear that not only could no general program be laid down *a priori* by this conference as a whole, but that a new and more highly specialized research organization than that already existing would be needed to undertake the Economic and Social History of the World War, one based more upon national grounds in the first instance, and less upon purely international coöperation. Until the facts of

national history could be ascertained, it would be impossible to proceed with comparative analysis; and the different national histories were themselves of almost baffling intricacy and variety. Consequently the former European Committee of Research was dissolved, and in its place it was decided to erect an Editorial Board in each of the larger countries and to nominate special editors in the smaller ones, who should concentrate, for the present at least, upon their own economic and social war history.

The nomination of these boards by the General Editor was the first step taken in every country where the work has begun. And if any justification were needed for the plan of the Endowment, it at once may be found in the lists of those, distinguished in scholarship or in public affairs, who have accepted the responsibility of editorship. This responsibility is by no means light, involving as it does the adaptation of the general editorial plan to the varying demands of national circumstances or methods of work; and the measure of success attained is due to the generous and earnest coöperation of those in charge in each country.

Once the editorial organization was established, there could be little doubt as to the first step which should be taken in each instance toward the actual preparation of the history. Without documents there can be no history. The essential records of the War, local as well as central, have therefore to be preserved and to be made available for research in so far as is compatible with public interest. But this archival task is a very great one, belonging of right to the Governments and other owners of historical sources and not to the historian or economist who proposes to use them. It is an obligation of ownership; for all such documents are public trust. The collaborators on this section of the war history, therefore, working within their own field as researchers, could only survey the situation as they found it and report their findings in the forms of guides or manuals; and perhaps, by stimulating a comparison of methods, help to further the adoption of those found to be most practical. In every country, therefore, this was the point of departure for actual work; although special monographs have not been written in every instance.

The first stage of the work upon the War History, dealing with little more than the externals of archives, seemed for a while to exhaust the possibilities of research, and had the plan of the history been limited to research based upon official documents, little more

could have been done, for once documents have been labeled "secret" few government officials can be found with sufficient courage or initiative to break open the seal. Thus vast masses of source material essential for the historian were effectively placed beyond his reach, although much of it was quite harmless from any point of view. While war conditions thus continued to hamper research, and were likely to do so for many years to come, some alternative had to be found.

Fortunately such an alternative was at hand in the narrative, amply supported by documentary evidence, of those who had played some part in the conduct of affairs during the War, or who, as close observers in privileged positions, were able to record from first or at least second-hand knowledge the economic history of different phases of the Great War, and of its effect upon society. Thus a series of monographs was planned consisting for the most part of unofficial yet authoritative statements, descriptive or historical, which may best be described as about halfway between memoirs and blue-books. These monographs make up the main body of the work assigned so far. They are not limited to contemporary war-time studies; for the economic history of the War must deal with a longer period than that of the actual fighting. It must cover the years of "deflation" as well, at least sufficiently to secure some fairer measure of the economic displacement than is possible in purely contemporary judgments.

With this phase of the work, the editorial problems assumed a new aspect. The series of monographs had to be planned primarily with regard to the availability of contributors, rather than of source material as in the case of most histories; for the contributors themselves controlled the sources. This in turn involved a new attitude toward those two ideals which historians have sought to emphasize, consistency and objectivity. In order to bring out the chief contribution of each writer it was impossible to keep within narrowly logical outlines; facts would have to be repeated in different settings and seen from different angles, and sections included which do not lie within the strict limits of history; and absolute objectivity could not be obtained in every part. Under the stress of controversy or apology, partial views would here and there find their expression. But these views are in some instances an intrinsic part of the history itself, contemporary measurements of facts as significant as the

facts with which they deal. Moreover, the work as a whole is planned to furnish its own corrective; and where it does not, others will.

In addition to the monographic treatment of source material, a number of studies by specialists are already in preparation, dealing with technical or limited subjects, historical or statistical. These monographs also partake to some extent of the nature of first-hand material, registering as they do the data of history close enough to the source to permit verification in ways impossible later. But they also belong to that constructive process by which history passes from analysis to synthesis. The process is a long and difficult one, however, and work upon it has only just begun. To quote an apt characterization; in the first stages of a history like this, one is only "picking cotton." The tangled threads of events have still to be woven into the pattern of history; and for this creative and constructive work different plans and organizations may be needed.

In a work which is the product of so complex and varied coöperation as this, it is impossible to indicate in any but a most general way the apportionment of responsibility of editors and authors for the contents of the different monographs. For the plan of the History as a whole and its effective execution the General Editor is responsible; but the arrangement of the detailed programs of study has been largely the work of the different Editorial Boards and divisional Editors, who have also read the manuscripts prepared under their direction. The acceptance of a monograph in this series, however, does not commit the editors to the opinions or conclusions of the authors. Like other editors, they are asked to vouch for the scientific merit, the appropriateness and usefulness of the volumes admitted to the series; but the authors are naturally free to make their individual contributions in their own way. In like manner the publication of the monographs does not commit the Endowment to agreement with any specific conclusions which may be expressed therein. The responsibility of the Endowment is to History itself—an obligation not to avoid but to secure and preserve variant narratives and points of view, in so far as they are essential for the understanding of the War as a whole.

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In the case of Russia, civil war and revolution followed so closely upon the World War that it is almost impossible for history to

measure with any degree of accuracy the effects of the World War itself upon the economic and social life of the country. Those effects were so distorted by the forces let loose in the post-war years and so confused with the disturbances of the revolutionary era that the attempt to isolate the phenomena of the War from the data of civil war and to analyze the former according to the plan followed in the other national series of this collection has been a task of unparalleled difficulty. Over and above the intricacies of the problem and its illusive character, the authors of the Russian monographs have had to work under the most discouraging circumstances and with inadequate implements of research. For those who know the scarcity of the documentary material available, it will be a matter of no little surprise to find, in the pages of this Russian Series, narratives and substantiating data which measure up so well in comparison with those prepared by the collaborators in other countries. The achievement of the Russian Division of the History is, all things considered, the most remarkable section of the entire collection. This is due, in the first place, to the fact that the authors, all of them exiles who live in foreign lands, have not only brought to this task the scientific disciplines of their own special fields but also an expert knowledge drawn from personal experience which in several instances reached to the highest offices of State.

While these volumes in the Russian History constitute so very considerable an achievement, they cannot in the very nature of the case cover with adequate statistical or other specific data many of the problems with which they deal. No one is more conscious of their shortcomings in this regard than the authors themselves. Nevertheless, with inadequate material and under hampering circumstances they have prepared a body of text and a record which, if admittedly incomplete as history, contains at least one element that would otherwise be lost for the future understanding of this great crisis in human affairs, an element which no other generation working from Russian archives could ever supply. We have here the mature comment upon events by contemporaries capable of passing judgment and appraising values, so that over and above the survey of phenomena there is presented a perspective and an organization of material which will be a contribution to history hardly less important than the substance of the monographs.

The Russian Series was in the first instance planned by one of the most distinguished of Russian scholars who had long been a resident of England, Sir Paul Vinogradoff, Corpus Professor of Jurisprudence at the University of Oxford. To the planning of the Series Sir Paul gave much time and thought. His untimely death in December 1925, prevented him from seeing its fruition or from assuming the editorial responsibility for the texts. Nevertheless, the Series as a whole remains substantially as he had planned it.

JAMES T. SHOTWELL

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REVENUE AND EXPENDITURE OF THE
RUSSIAN GOVERNMENT DURING
THE WAR

BY ALEXANDER M. MICHELSON

INTRODUCTION

BY COUNT V. N. KOKOVZOV

THE work of Professor Michelson, which is now offered to the public, deserves, in my opinion, the close attention of all those who are interested in the administration and history of State finance. It presents an edifying picture of Russia's finance before and during the War up to the Revolution of October 1917, which swept away her century-old culture.

Generally speaking, Russia was little known outside her frontiers. Her neighbors usually looked upon her as a field for the profitable investment of capital accumulated in those countries which had preceded her on the path of economic development. Their interest was chiefly concentrated on the superficial aspects of Russian life; they admired the wealth of her natural resources, praised the pleasantness and comfort of her life, and paid tribute to her achievements in literature, art, and music. At times they noted the stability of her social structure, but more often criticized her political organization and eagerly followed the comments of the Russian opposition press, which was by no means always fair in keeping the balance of pros and cons. As a rule the press and publications of the opposition dwelt at length on the backwardness of Russia as compared with other countries, paying little attention to the elementary truth that the progress of the country should be judged by the road it had covered in a definite period and not by a comparison with other countries which had lived for centuries under entirely different historical conditions. This absence of adequate information was felt particularly in the field of Russian State finance. Outside the small group of statesmen and scholars, very few were acquainted with the actual conditions of Russian finances or were in a position to appreciate the enormous progress made by the country in the second half of the last century and the first decades of this one, as well as the soundness of the new financial machinery which came into being during the relatively short period of existence of modern Russia. The works of Russian scholars were little known abroad, the difficulty of the Russian language putting an effective check to their wider circulation.

Official publications were not in demand and were generally treated with a good deal of suspicion. The comments of the Government's critics inspired much more confidence. Purely casual pamphlets, which were sometimes inspired by motives of a personal nature, attracted considerable attention and were even translated into foreign languages; while the honest and careful investigations of official writers passed almost unnoticed. The work of serious scholars, such as Leroy-Beaulieu, usually dealt with some definite period or a certain branch of financial administration, and were soon out of date because of the rapid course of events: for it may be safely maintained that in fifty or sixty years Russia's development covered ground which in other countries took hundreds of years.

The monograph of Professor Michelson, therefore, will bridge a gap that should be filled. His work deserves not only acknowledgment but gratitude as well, in spite of the fact that he does not speak of what is now, but of what used to be. Indeed we should be grateful to the author because he does give us an exhaustive, lucid, and impartial account of those bygone days. A thorough knowledge of Russia's past is necessary in order to obtain a clear and just idea of her unfortunate and desperate present. It will provide the best guidance for a future financial policy.

The author begins with a comprehensive sketch of the primitive system of taxation that existed in Russia at the time of the Great Reforms of Alexander II. With an almost incredible rapidity this system gave place to more modern methods, which were gradually freed from fiscal anachronisms; some of the latter however have recently been revived in many civilized countries because of the necessity of getting money wherever it might be obtained,—sometimes from sources which certainly should not have been used.

The Russian Government acting through its outstanding statesmen took energetic measures in balancing its budget; it was rightly convinced that this was a necessary condition for strengthening the financial position of Russia and for building up her credit. In this respect it was successful at a time when the importance of these considerations was not yet fully realized in many countries of Western Europe. The planning and carrying out of the budget was an open matter and was placed under a system of public audit, whose integrity could not be doubted, long before legislative assemblies were

entrusted with these functions and before restrictions on criticism of government policy were entirely removed.

The Russian Government was extremely scrupulous in meeting its obligations; it displayed great care in all matters concerning the credit of the country. It never succumbed to the temptation of departing from the rigid legal enactments even at times of extreme tension in foreign affairs and in spite of the fact that its strict interpretation of financial law sometimes provoked the not altogether unfounded criticism of overdrawn prudence and probity. The author of these lines recalls that in December 1905, immediately after the Russo-Japanese War and the Moscow rebellion, Maurice Rouvier, then Prime Minister of France and a well-known authority on finance, and Leroy-Beaulieu, Fellow of the Russian Academy of Sciences, commenting upon him in his capacity of Minister of Finance during the war of 1904-1905, declared that his administration deserves only one criticism—the “too elegant conduct of the war, without the suspension of gold payments, while any other country would certainly have had recourse to a compulsory rate of conversion of bank notes from the very beginning of the war.”

Professor Michelson's monograph traces the gradual evolution of the system of taxation which took place systematically, logically, and without violent transitions. In enforcing the principle of fiscal equity, Russia abolished one by one taxes on the necessities of life, such as the tax on salt and the poll tax, which imposed an unjustifiable burden upon the poorer classes; and in a very short time, by increasing the taxation on commerce, industry, and real property, she succeeded in shifting the burden of taxation to the well-to-do classes. The pyramid of the new fiscal system was crowned by the introduction of the income tax. An idea of the extreme prudence displayed by Russia in matters of taxation may be gathered from the fact that in the course of the last seventy-five years the rise of taxes had never been sharp and that the economic progress of the country was never hindered by a reckless fiscal policy.

The author of this monograph also discusses the working of State undertakings and the brilliant results of the State management of posts and telegraphs, State railroads, highways, and of the wise policy adopted by the Government in matters connected with the operation of private railroads and its sound tariff policy. In spite of his lack of sympathy for the State liquor monopoly, the author

produces incontestable proofs of its excellent technical and financial results; his statements indirectly refute the unfounded but popular story that Russia was a hot-bed of corruption and abuses.

Lastly, the work of Professor Michelson gives for the first time in financial literature an estimate of Russia's gigantic war expenditure and shows the sources from which this expenditure was met. For reasons entirely outside the control of the author this part of his monograph is not so complete as the main portion. The official publications were prevented from carrying their task to its conclusion, and the revolutionary upheaval of 1917 had no interest in summing up the sacrifices made by Russia in the struggle against the Central Empires.

The author, nevertheless, makes a valuable contribution towards the solution of this problem. He outlines the work which is yet to be done in the future, although no one knows when the time may come for its realization.

I should like to finish my Introduction by the expression of a wish or, rather, of a personal opinion. A day will come,—nobody knows exactly when, but it must come,—when Russia will heal her wounds, inflicted this time not by the War which damaged her brilliant financial position, but by the events that followed the War. When that day arrives it will be necessary to look backward, to examine the road to the past and to seek in her past experiences guidance for the future and practical methods for the solution of new problems. Theoretical schemes, when applied to practice, are apt to lead to painful disappointments which could be avoided by adapting to new conditions old principles which served Russia well in the past and which enabled the country to accomplish in a half century the prodigious work which, in other countries, required the strenuous efforts of centuries. The monograph of Professor Michelson will be invaluable in this respect.

I may perhaps be allowed to end this Introduction by expressing my sincere gratitude to American science and its institutions, especially to the Carnegie Endowment for International Peace. Its enlightened support made possible the writing of Professor Michelson's work. Without its help it would probably be withheld from the public, and the science of finance would be deprived of this valuable contribution. Sooner or later Russia, the Russia of the future, will accept her past and will not refuse to judge it impartially, since no

country can plan its future without taking into consideration its past historical development. When that time comes Russia will appreciate this service rendered at a moment of her greatest sufferings by the generous American friends of the Russian people and will record it together with other services rendered her, especially her younger generation.

Paris, 21st April 1926.

COUNT V. N. KOKOVZOV,

Formerly Minister of Finance and Prime Minister of Russia.

PREFACE

A SURVEY of Russian war finance should be prefaced by an account, however short, of the state of the public finances of the country at the outbreak of the War. Such an account is necessary for two reasons. In the first place, it will enable the reader more thoroughly to understand the financial strain caused by the War. Secondly, the declaration of War coincided with a radical change in Russian financial policy. On the 22nd August 1914,¹ the public sale of spirits which, as is well known, supplied one of the chief sources of revenue, was discontinued. Thus at the outbreak of the War, Russia was confronted with two financial problems. One of them, common to all belligerent countries, was that of the raising of resources for the conduct of military operations. The other, a problem specifically Russian, was that of reconstructing the financial system so as to fill the gap created in the budget by the abolition of the State Monopoly of Spirits.

Previous to the great reforms introduced by the Emperor Alexander II, Russia's financial structure was really that of the *ancien régime*. The discrimination between taxable and non-taxable classes was a characteristic feature of the system, whereby the burden of State expenditure rested on the lowest classes of the population. The capitation tax and salt duty, a direct and an indirect tax, respectively, formed the chief basis of the revenue. Moreover, taxes were farmed. The administration of public finance was likewise obsolete. Previous to the reform of 1862, there existed no fixed rules constituting the financial law of the country. The budget was regarded almost as a State secret; it was not published nor did it give a complete account of the country's economic situation. Budgetary unity was unknown, for each branch of the Government drew up its own estimates, not merely for expenditure, but also for revenue. Moreover, the provisions of the budget were not considered binding, each department being entitled to apply for supplementary credits and enjoying considerable freedom as regards the employment of its assets, the accumulation of surpluses, etc. The public audit was most defective and no real control existed.

¹ All dates in this monograph are given in accordance with the Russian calendar, unless otherwise stated.

Alexander II's reforms effected a radical change in the financial system, and brought it into closer harmony with the economic structure of a modern state. The most radical changes were made both in the financial law and in its administration. A new system of audit and control was introduced by which documentary evidence was required in support of each item of expenditure. New local institutions of public control were created, known as the Boards of Control (*Kontrolnaya Palata*) of 1864.

The rules laid down for settling the estimates secured budgetary unity, the allocation of credits to specific purposes (specialization of votes), and the appropriation of all surpluses to general expenditure. The system of excess grants was limited, a single State Treasury was created, and the accounts of all departments were centralized in the Ministry of Finance. These changes, which introduced a fixed order in the administration of the country's finances and restricted the discretionary authority of the several departments, were supplemented by the publication of the budget (1863) and of the reports of the audit office (1866).

The system of taxation was likewise considerably improved. The reforms, though not so far-reaching as those of the financial administration, effected the reconstruction of the system on an entirely new basis. The principle of equity, that all classes of the population should be subject to taxation, was the principal object of the reforms. They aimed at alleviating the burden of taxation on the lowest and poorest classes of the population, which had hitherto borne almost the entire weight of the national expenditure. The repeal of the capitation tax and the salt duty and the abolition of the farming of taxes were the means by which this object was to be attained.

Only part of this plan was carried out during the reign of Alexander II. In 1863 the farming of taxes was replaced by a system of excise duties, the capitation tax on commoners (*meshchane*) was abolished and a tax on urban property imposed in its stead. The tax that weighed most heavily on the population, the salt duty, disappeared in 1880 and the peasant's payments on allotments were considerably reduced. The Imperial Ukase of the 14th May 1883 inaugurated the gradual abolition of the capitation tax on peasants, thus doing away with the discrimination between taxable and non-taxable classes, that last remnant of the *ancien régime*. The

alleviation of the burden of taxation on the peasants had its corollary in the imposition of taxation on other wealthier classes, which had been until then either inadequately taxed or entirely exempt. Accordingly a series of fresh taxes was imposed and the rate of certain old taxes was raised.

In 1882, a tax was enacted on the free transfer of property (*i.e.*, death duties and taxes on gifts); and in 1885 the obsolete and inadequate taxation of commerce and industry, which took the form of licenses for the carrying on of business, was considerably increased by the introduction of new duties, and its efficiency was improved. A 5 per cent tax was levied on income from capital and substantial additions were made to the land tax and the duties on urban property. The equality of taxation aimed at by these measures was meant to prepare the way for the creation of an income tax; such at least was the intention of P. Bungue, then Minister of Finance.

The creation of tax inspectors, special local officials representing the financial administration, had the same object in view. They were given power to control the assessment and the collection of taxes, and were directed to investigate thoroughly the taxable capacity of the population. This radical reform of Russia's financial system coincides in time with the equally important changes that occurred in its national economy. The domestic economy was finally disintegrated by the abolition of serfdom, and the transition to modern finance was thus hastened, the produce of the village being inevitably drawn into the general trade.

The construction of railways, uniting the remotest parts of the country with the center, stimulated the export of these products on a large scale.

Finally, the growth of the purchasing power of the population was an incentive to the extensive development not only of industry but also of city life. The immense growth of Russia's productive forces from the middle of the last century was thus considerably accelerated and its consequences were seen in the extraordinary progress of Russia's national economy.

The swift growth of the budget is a characteristic indication of this process. The table below shows the increase of public expendi-

ture (ordinary and extraordinary) from the middle of the last century down to the outbreak of the World War.

<i>Years</i>	<i>Millions of rubles</i>
1863	432
1870	563
1880	793
1890	1,056
1900	1,889
1905	3,204
1910	2,596
1911	2,845
1912	3,171
1913	3,382

Allowing for the fall in the value of the ruble by one-third, we see that the Russian budget increased more than sixfold within these fifty years (1863-1913), a rate far exceeding the corresponding increase in the budgets of West-European countries. The increase of the Russian budget exceeds that of the French, which expanded in the same period threefold, and that of the British budget, which increased by two and three-fourths.

The description of the progress of Russia's national economy during this period is not within the scope of this work. It is proposed, however, to give a short analysis of Russia's financial situation during the decade immediately preceding the World War of 1914, so as to afford a complete view of Russian public finance at the outbreak of the Great War.

The decade (1903-1913) immediately preceding the World War, opened with very favorable financial prospects. The total ordinary State revenue in 1903 (2,032 million rubles) exceeded the total ordinary State expenditure for the same year (1,883 million rubles) by 149 million rubles, which united with the surpluses of preceding years left a free balance in the Treasury of 381 million rubles. This figure had never before been reached.

The Japanese War and the ensuing disorders at home altered the financial situation of the country considerably for the worse. The expenditure incurred during the war not only exhausted the entire free balance of the Treasury but compelled the Government to levy heavier taxes, raise a series of loans, and curtail the ordinary expenditure. But within less than ten years Russia's national economy was

restored and its situation at the outbreak of the World War had become more satisfactory than at any previous time.

The free balance of the Treasury, which had been exhausted during the Russo-Japanese War, had been reconstituted and by the end of 1913 had reached the unprecedented sum of 514.2 million rubles. It will be seen later that it was principally from this free balance that the Government met the expenditure of the first months of the War.

The revenue was divided into two principal parts, *ordinary revenue* and *extraordinary revenue*. Since the Law of 1894, the following items had been included under the head of extraordinary revenue: (1) permanent deposits in the State Bank; (2) receipts, of considerable magnitude, from *special* funds appropriated to the general revenue of the Treasury; (3) the proceeds of loans and credit transactions; and (4) sundry minor receipts. All other income was brought under the head of ordinary revenue. A detailed knowledge of the state of public revenue can be obtained only by a careful study of the fluctuations of these two funds.

CHAPTER I

RUSSIAN REVENUE AND EXPENDITURE ON THE EVE OF THE WAR

SECTION 1. ORDINARY REVENUE.

THE rapidity with which the ordinary revenue increased is the most striking feature of the budget. The following table gives the figures of the total ordinary revenue at five-year intervals during 1903-1913:

	1903	1908	1913
	(millions of rubles)		
Receipts	2,032	2,418	3,415
Increase for five years		386	997
Percentage of increase		19%	41%

Thus, while the revenue increased by 386 million rubles in the first five years, the increase reached almost a thousand million rubles in the second.

The significance of this remarkable growth can be better appreciated by a comparison of the previous periods showing an equal increase. The total ordinary State revenue was:

	(millions of rubles)
in 1867	415
in 1897	1,416
in 1908	2,418
in 1913	3,415

It thus appears that it required thirty years for the first increase of a thousand million rubles, eleven years for the second, while the third thousand million was attained in five years.

The accelerated increase in the last two periods was doubtless due to the incorporation under the head of *ordinary revenue* of the receipts derived from two rapidly expanding State enterprises: the State railways and the State Monopoly of Spirits. These receipts, however, though of substantial proportions, by no means accounted for the full growth of the State's revenue, which can be explained only by the unparalleled development in the country's entire economy.

This fact is better illustrated by a separate analysis of each item of Russia's ordinary State revenue. The annual financial statement grouped the ordinary State revenue under five heads: *direct taxes*, *indirect taxes*, *royalties*, *property*, and *funds owned by the State*.

i. *Direct Taxation.*

In the Russian fiscal system, taxes were levied on income from specific sources (*real taxes*)¹ and not on a taxpayer's total income. There existed, for instance, separate property taxes on the revenue derived from commerce and industry (*Imperial Tax on Commerce and Industry*), on income from land (*land tax*), on revenue from house ownership (*house tax*), on interest from capital, etc. This principle of taxation on property, as opposed to personal taxation, was not strictly adhered to. Owing to a series of amendments enacted, for the most part, during the years immediately preceding the War, the several property taxes were converted into partial income taxes. These were to be completed by a general income tax; and the Ministry of Finance introduced a bill in the Duma for this purpose prior to the War. It was, however, not enacted until after the commencement of hostilities.

The Russian system of direct taxation at the outbreak of the War comprised the following principal subheads: the tax on real property (*the Imperial Land Tax*) and on urban sites whether built on or not (*The Tax on Property in Towns, Boroughs, and Minor Urban Localities*), the tax on capital (*Tax on Interest from Capital*), and the tax on commercial and industrial enterprises (*the Imperial Tax on Commerce and Industry*). This last yielded the largest revenue of all the direct taxes.

a. *Imperial Tax on Commerce and Industry.*²

The tax on commerce and industry was divided into the *principal* and *supplementary* taxes.

¹ Real taxes are those assessed on objects other than persons, and without reference to the owners or possessors. Bastable. [Note by Translator.]

² For the taxation of commerce and industry in Russia, see D. Lvov, *Promislovi nalog* (*The Tax on Commerce and Industry*), Moscow, 1880; P. Henzel, *Promislovoe oblozhenie v Rossii* (*The Taxation of Commerce and Industry in Russia*), St. Petersburg, 1900; *Zapiska Ministerstva Finansov o Reforme Promislovago Naloga* (*Memorandum of the Ministry of Finance on*

The *principal* tax on commerce and industry was levied through the issue of licenses for the carrying on of business. The various parts of the Empire were classified according to the development of their commerce and industry, and the commercial and industrial enterprises, together with the various professions themselves, were further subdivided into different grades.

The *supplementary* tax on commerce and industry varied according to the nature of the business taxed. Enterprises subject to public audit were assessed differently from others.³ From the first this tax operated in a twofold manner: it taxed all authorized capital and exacted a fixed percentage on profits.

The imposition of the *tax on authorized capital* was designed to prevent the artificial reduction of the profits by a fictitious increase of the capital. Previous to the War, it was levied at the annual rate of 15 copecks for every 100 rubles of authorized capital which yielded a profit not exceeding 3 per cent, and of 20 copecks for every 100 rubles of capital which yielded a profit in excess of 3 per cent.

The *percentage tax* was paid by enterprises subject to public audit only when the net profits exceeded 3 per cent on the authorized capital. Prior to the War, the rate for these varied from 3 per cent (when the net profits were between 3 and 4 per cent) to 14 per cent (when the net profits were 19 or 20 per cent). When the net profits of an enterprise rose above 20 per cent, it paid in addition to 14 per cent on the aggregate net profits, 10 per cent on the amount by which the profits exceeded 20 per cent.

Enterprises not subject to public audit were required to pay an apportioned tax and a percentage tax on their profits.

The total amount of the apportioned tax for the whole Empire was fixed every three years by the national legislature. The executive divided it annually among the provinces according to the development of their commerce and industry. Within the several prov-

the Reform of Taxation of Commerce and Industry), St. Petersburg, 1898; *Istoricheski ocherk oblozheniya trgovli i promislov v Rossii* (*Historical Survey of Taxation of Commerce and Industry in Russia*) published by Department *Promishlennosti i Torgovli*, St. Petersburg, 1893.

³ The enterprises subject to public audit were the limited liability and joint-stock companies, which were required to publish their accounts and balance sheets in official publications annually.

inces and districts, the local Treasury boards (*Kasennaya Palata*) in plenary meetings, at the beginning of each year, distributed the apportioned sum among the respective units within their jurisdiction. They took into account the number of enterprises, their gross receipts and profits and the local conditions in the preceding year, and their prospects for the current year. The final apportionment of the tax upon the various enterprises was the duty of the assessment boards (*Raskladochnoe Prisutstvie*) which included representatives of the taxpayers and of the officers of the Department of Tax Control.

The assessment board classified all enterprises according to the various branches of commerce and industry, and determined for each class the percentage of gross receipts constituting normal profits. The tax levied on the gross receipts of each enterprise was calculated on the basis of the normal profits thus allowed.

The *percentage tax* was levied in the following manner. If the profits on which the amount of the apportioned tax was calculated exceeded the amount paid for the license by more than twentyfold, an additional tax was levied on the excess. Previous to the War, this additional tax amounted to 5 per cent.

Such were the main outlines of the somewhat complicated provisions of the Imperial Tax on Commerce and Industry before the War. It combined remnants of the old system of taxation (apportionment, license, and fiscal estimates based on the economic conditions of the enterprise) with the characteristics of the modern income tax (graduated tax, declarations, and net profits). The latter features were so important that the tax was rightly considered a stepping-stone towards the adoption of a general income tax. In spite of its imperfections, the Imperial Tax on Commerce and Industry yielded an important and constantly increasing revenue.

The yield of this tax more than doubled within the decade under consideration: it amounted in 1903 to 67.5 million rubles, and rose in 1913 to 150 million rubles. Even if we deduct the 30-33 million rubles produced by the higher rate of tax imposed on the 2nd January 1906, an increase of 50 million rubles remains, which affords clear testimony of the prosperous condition of Russia during this period. The number of taxed enterprises rose from 448,818 in 1903 to 592,870 in 1912, an increase of 144,552 (or 32.1 per cent) for the period 1903-1913. The profits of these enterprises increased

from 572 million rubles in 1903 to 819 million rubles in 1913, *i.e.* by 43 per cent.⁴

b. Imperial Tax on Real Property in Towns, Boroughs and Minor Urban Localities (mestechki).

This tax supplied another important item of revenue. Down to 1912, it was an apportioned tax imposed yearly upon each province by the national legislature. The local zemstvo assembly apportioned the sum within the borders of its province and the municipal boards (*gorodskaya uprava*) distributed it in their towns. The most striking feature of the Act of 1912 was the alteration of the principle of the tax, which was changed from an apportioned into an assessed tax. It was assessed on the basis of the average net profits yielded by the property and determined in the following manner. All urban property was subject to revaluation every five years, at which time the average gross receipts for the ensuing period were estimated on the basis of the existing average rents.

All expenses foreseen by the law (maintenance, insurance, and protection) were deducted from the gross receipts and the remainder was considered the average profits. The proprietors were required to produce a declaration describing their real property and its rental value. Where it was found impossible to ascertain either the average gross receipts or the average net profits on the basis of the rental income, the net profits were fixed at 5 per cent of the value of the property. This estimation was based on the insurance value, mortgage value, or sale price of the property.

The rate of this tax for the years 1912 and 1913, estimated in the manner above described, amounted to 6 per cent of the net profits.

The revenue from this tax increased more than threefold during the period under consideration, rising from 9.7 million rubles in 1903 to 30.8 million rubles in 1912. The chief cause of this increase was naturally the radical reform of the tax in 1912, but even previous to the reform, during the years 1904 to 1911, the receipts had risen by 6.3 million rubles or by 44.6 per cent. After the reform, the increase was still more striking. In a single year (1912-1913) the receipts jumped from 30.8 million rubles to 36.6 million rubles, this rise being due chiefly to the rapid growth of towns and the

⁴ Ministry of Finance, *Obzor za 1904-1913 godi*, (*Review for the Decade 1904-1913*), St. Petersburg, 1914.

general progress of the country. The figures published by the Department of Apportioned Taxes (*Okladnikh Sborov*) for the year 1912 and 1913 show that in 50 provinces of European Russia the aggregate income from house rents rose by 78.5 per cent between 1900 (253.4 million rubles) and 1912 (434.5 million rubles). During the same period, the number of apartments increased by 28 per cent and that of houses by 50 per cent.⁵

The revenue from *The Imperial Tax on Dwelling Houses*, *The Tax on Interest from Capital*, and *The Imperial Land Tax* show an almost equally remarkable development.

c. Tax on Interest from Capital.

The Law of the 20th May 1885⁶ imposed this tax, at the rate of 5 per cent, on income from all kinds of interest-bearing securities (State, public, and private). It applied likewise to current accounts and to interest-bearing deposits of any category with the State Bank, joint-stock banks, and mutual credit associations. In order to encourage thrift and the habit of saving among the poorer classes of the population, deposits with savings banks and associations for mutual savings and advances (*sudoberegatel'nyia kassy*), as well as with village banks, were exempt. Charities, scientific and educational institutions were entitled to claim the return of the tax levied on their income. The dividends on shares of commercial and industrial corporations were similarly exempt, because the aggregate income of these enterprises was subject to the tax on commerce and industry. Interest-bearing securities, if exemption was guaranteed at the time of issue, were permanently excused from the payment of the tax. The tax was collected by the indirect method, *i.e.*, the amount of the tax was withheld from the payment of dividends or on coupons of interest-bearing securities and was then transferred to the Treasury.

Without any increase in its rate, the receipts from this tax during the period 1903-1913 increased by 77.2 per cent, expanding from 17.7 million rubles to 30.4 million rubles.

⁵ S. Prokopovich, *Opit ischisleniya narodnago dokhoda 50 guberni Evropeiskoi Rossii v 1900-1913 godakh* (*An Attempt to Determine the National Income in Fifty Provinces of European Russia in 1900-1913*), Moscow, 1918, pp. 23 sqq. and pp. 62 sqq.

⁶ See p. 9, n. 1.

d. *Imperial Tax on Dwelling Houses.*

This tax was introduced into Russia as a substitute for an income tax. As early as 1892, the Ministry of Finance proposed the adoption of an income tax in order to increase the revenue. The suggestion, however, met with objections from most of the Departments, which doubted the propriety and expediency of enacting such a tax. They argued that the public were unprepared to pay it and the administration to collect it. The plan was accordingly abandoned and the Ministry of Finance had to resort to a less direct and less effective method. The result of its efforts was the *Tax on Dwelling Houses*, of 1893.

Inhabited dwellings in towns or other urban localities specified in the law were subject to this tax. Towns and boroughs were grouped into five classes according to the average rental value of dwellings in each town. Dwellings again were subdivided on the same basis, the rate of the tax being fixed separately for each group of dwellings in every class of towns and boroughs. It rose progressively from 1.67 per cent levied on the lowest to 10 per cent imposed on the highest rents. Rents less than the minimum fixed for the lowest rate of each class were exempt.

The revenue from this tax showed an increase of 76 per cent in the period 1903-1913 rising from 5 million rubles to 9.2 million rubles.

e. *Imperial Land Tax.*⁷

The system of land tax, as it existed until the War, dated as far back as 1875. The tax was levied on almost all arable land except land owned by the State and land of special categories, *e.g.*, government allotments for the upkeep of churches, land owned by the clergy, monasteries, charities, and educational institutions.

It was an apportioned tax, the total for each province being determined by the number of taxable deciatines⁸ multiplied by the average tax assessed on one deciatine of arable land or forest. This rate, after approval by the Minister of Finance, was then enacted, and

⁷ Cf. V. Lebedev, *Pozemelni nalog (The Land Tax)*, St. Petersburg, 1868; J. Gorb-Romashkevich, *Pozemelni kadastr (The Land Cadastre)*, Vols. I and II, Warsaw, 1892; *Zemelnoe Oblozhenie (Taxation of Land)*, a compilation of reports of local committees in forty-nine provinces, edited by S. Shidlovsky, St. Petersburg, 1904.

⁸ One deciatine = 2.7 acres.

varied, previous to the War, in different provinces from $\frac{1}{4}$ copeck to 17 copecks per deciatine.

The zemstvo assembly of the provinces distributed the apportioned sum among the districts (*uezd*) according to the amount and value of the lands of each district. Within the districts the distribution of the apportioned sum rested with the district zemstvo boards (*uezd-naya zemskaya uprava*), which followed the principles established for the distribution of local rates.

The receipts from this tax were relatively unimportant, amounting to an average of only six copecks per deciatine (in 1906) on all land owned by squires and peasants. It showed however a steady tendency to increase, rising from 14.9 million rubles in 1903 to 24.4 million rubles in 1913, an increase of 70 per cent. A series of minor taxes affecting landed property supplemented the Imperial Land Tax. One class of taxpayers, the peasants, were subject to an additional tax of a special kind, the so-called *redemption payments* (*vikupnie platezhi*).

These were originally payments on account of interest and amortization on the advances granted by the Treasury as compensation to the owners for the land allotted to peasants in 1861, on the emancipation of the serfs. Owing to the method of collection, the peasants considered these payments a direct tax, and, in fact, their economic consequences justified this view.

The redemption payments were a heavy assessment imposed upon a single class of the population and were analogous to the capitation tax during the *ancien régime*. They perpetuated in the mind of the peasants the idea of a population divided into privileged and non-privileged classes. They weighed heavily on the peasant during the years of scarcity, when they often exceeded his capacity to pay and merely led to the constant increase of arrears.

Notwithstanding the impaired condition of the Treasury caused by the Russo-Japanese War, the manifesto of the 3rd November 1905⁹ reduced the payments on allotments by one-half as from the 1st January 1906, and entirely repealed them from the 1st January 1907. In 1903, the redemption payments amounted still to 88.8 million rubles; in 1906, reduced by half, they fell to 34.9 million rubles, and after their repeal in 1907 to 508,000 rubles.

⁹ See p. 9, n. 1.

The table below shows the increase of revenue from direct taxes in the decade 1903-1913.

	1903	1909	1913
	(millions of rubles)		
Imperial Tax on Commerce and Industry	67.5	104.2	150.1
Tax on Interest of Capital	17.7	23.4	35.1
Taxes on Land, Urban Property, and Miscellaneous	49.8	71.0	87.2
Total	135.0	198.6	272.4

These figures establish the fact that the yield from direct taxes more than doubled in this period, notwithstanding the economic upheaval caused by the Russo-Japanese War and the ensuing disturbances at home. This growth was due in part to the increase in the rate of the taxation: increase in 1906 of the Tax on Commerce and Industry, which yielded an excess over the preceding years of 32-33 million rubles, and reform in 1912 of the tax on urban property, which yielded an excess over preceding years of about 15 million rubles.¹⁰ Allowing for the additional revenue derived from these measures, there still remains a substantial increase which exceeded the ratio of the growth of the population. This increase must be attributed to the natural development of the taxable capacity of the country.

Various plans were under consideration in 1913 for the improvement of the system of taxation. The leader of the Russian financial policy of this period, Count V. N. Kokovzov, followed in the steps of his predecessors, P. Bunge, I. Vishnegradsky and Count S. Witte. Aiming at a more equitable distribution of the burden of taxation, Count Kokovzov sought to shift the incidence of taxes from the poorer to the wealthier classes of the population without reconstructing the entire system.¹¹ In pursuance of this design, the Imperial Manifesto of 1905 abolished the redemption payments, thus annulling 90 million rubles of taxes payable by the peasants alone. On the other hand, the Ministry of Finance prepared and

¹⁰ Ministry of Finance, *Obzor za 1904-1913 godi* (Review for the Decade 1904-1913), St. Petersburg, 1914, p. 107.

¹¹ *Memorandum (Zapiska) of the Ministry of Finance Laid Before the Duma in April 1907*, p. 7; speech delivered by Count Kokovzov in the Duma on the 27th November 1907, St. Petersburg, 1907.

introduced a bill establishing an income tax and initiated a revision of the system of real taxes (tax on commerce and industry, on urban estate, on land, etc.), in order to improve the efficiency of their collection and to make them more uniform. The Russo-Japanese War delayed the enactment of these reforms and, as late as 1914, only the reform of the tax on urban property had been voted. The remainder of the reform was enacted during the Great War.

In spite of the above-mentioned substantial growth of the yield from direct taxes in the period 1903-1913, the table below shows the small amount produced by them relatively to the aggregate revenue:

<i>Years</i>	<i>Total Ordinary Revenue</i> (millions of rubles)	<i>Revenue from Direct Taxes*</i> <i>Percentage</i>
1903	2.032	135. 6.6
1913	3.415	273. 8.0

* Redemption payments excluded.

The relative insignificance of direct taxation in Russia is best illustrated if we compare the amount levied by it per head of population in Russia and in West-European countries.

The per capita direct taxation in 1911¹² was:

	(rubles)
In Russia	1.28
In Germany	5.45
In Austria	5.12
In France	6.44
In Great Britain and Ireland	10.01
In Italy	5.29 ¹³

Even if the local rates are added to the State taxes, direct taxation is lower in Russia than in any country of western Europe.

¹² The comparative burden of taxation per head of the population given in this table is only relatively correct. In order to obtain a precise statement, the comparative wealth and taxable capacity of the population should be allowed for. The figures necessary for such computation, however, are not available and we have to confine ourselves to the absolute figures which give a less accurate statement of the situation.

¹³ E. Kuhn, *Opit sravnitel'nago izsledovaniya nalogovogo bremeni v Rossii i drugikh glavneishikh gosudarstvakh Evrope* (*A Comparative Study of the Burden of Taxation in Russia and in the Principal European Countries*), in the periodical *Vestnik Finansov* (*Financial Messenger*), 1913, No. 3, pp. 96, 98.

Per Capita Direct Taxation.

	<i>Imperial</i>	<i>Local</i> (in rubles)	<i>Total</i>
Russia	1.29	1.83	3.11
Germany	5.45	7.52	12.97
Austria	5.12	5.07	10.19
France	6.44	5.91	12.35
Great Britain and Ireland	10.01	11.74	26.75
Italy	5.29	4.03	9.32

The predominant causes of the relative insignificance of direct taxation in Russia must be sought in the history of Russia's economic development. The elaborate forms of taxation of modern States, *e.g.*, partial and general income taxes, tax on property, etc., presuppose a not less elaborate economic system. In Russia, scarcely fifty years had elapsed since the great reforms of Alexander II had put an end to its ancient domestic system, which was characterized by an almost entire absence of industry, railways, and city life. This period was insufficient for the creation of a highly developed system of direct taxation. The extraordinarily rapid development of Russia's economy in the last decade preceding the War, however, was paving the way for such a system, which would yield the means necessary to meet the increased expenditure and would signify a distinct step forward in Russian fiscal policy. It will be shown in the following chapters that some of these new taxes were brought into operation during the War.

ii. *Duties.*

The Russian annual Financial Statement¹⁴ united two distinct kinds of receipts under the head of duties. The first comprised all sums collected from the public in payment for special services rendered by the State, *e.g.*, court fees, registration fees, fees in respect of various charters, diplomas, and privileges, and in respect of the attachment or release of property, tolls, etc., and additional receipts entered under Clause 15 (miscellaneous) in the Financial Statement.

¹⁴ The Russian Financial Statement was a document submitted by the Minister of Finance to the legislative assemblies at the beginning of each fiscal year. It contained, in addition to the budgetary estimate of revenue and expenditure for the coming year, a summary of revenue and expenditure for the preceding years.

An entirely different group of receipts classified under the same head was collected without any connection with any special services rendered by the State. The Treasury levied a definite percentage on the value of property transferred (mainly real property) in addition to the charges for the registration of deeds (stamp duty, registration fees, and other duties). The State also taxed insurance policies and railway tickets. These taxes, in reality, had nothing in common with fees as defined in the science of finance, except in respect of the method of their collection. Economic science defines fees as "imposts levied by the State in retribution of special services individually rendered to and in the interest of private persons." The foregoing receipts really consisted of taxes levied on funds, the conveyancing of property, the transport of passengers and goods, contracts, insurance policies, and similar transactions. For convenience, however, the classification authorized by the Financial Statement and accepted generally by authorities on finance will be followed.

a. Duties on the Transfer of Property.

These duties themselves may be divided into two groups: (a) *Duties on deeds*, which were levied in the form of a definite percentage on the value of the real property sold. The payment for the services rendered by the State on such occasions was charged for separately (stamp duty, registration fee). The duties in question were thus really a tax on the conveyancing of property. (b) *Duties on the transfer of property on death, and gifts, i.e. death duties*. Death duties are known to have existed in Russia since the reign of Tsar Alexei Mikhailovich (1645-1676) and perhaps even earlier. They were levied under the name of "quarter moneys" at the rate of three copecks per "quarter"¹⁵ even when bequeathed to lineal descendants. The Rules Regulating the Duties Imposed on the Free Transfer of Property, issued in 1882, constituted the basis of the death duties as levied until the War. These Rules assessed all properties transferred by inheritance, grant, donation, endowment, or any other gratuitous act, except in the following cases: (1) property not exceeding 1,000 rubles in value, (2) rural land situated in the country districts (*uczda*), when inherited by the nearest relatives (a measure

¹⁵ "Quarter"—an ancient Russian measure, equal to one-half deciatine, or about 1.3 acres.

enacted in 1895 to promote land-ownership), (3) land allotted to peasants, if inherited by peasants, (4) property transferred to the State, charities, educational or scientific institutions, clergy, monasteries, etc.

The rate of death duties varied from 1.5 per cent to 12 per cent according to the value of the property inherited, as well as to the degree of relationship existing between the deceased and the heir. Previous to 1905, it was levied at a lower rate, but after the Russo-Japanese War, it was increased by 50 per cent and remained the same down to the War. Property inherited by the widow or widower, children, or adopted children of the deceased was taxed at the rate of 1.5 per cent, by step-sons, step-daughters, brothers and sisters at 6 per cent, by heirs collaterally related at 9 per cent, and by all other persons at 12 per cent. Life interests were taxed at half the full rate. The heirs or the executor were required to produce a declaration of the value of the property, but this valuation could not be below the official estimate and was always checked by reference to the latter. Various deductions from the inherited estate were allowed, *e.g.*, the costs of the medical treatment of the deceased, of his burial, debts to credit institutions, state taxes, and municipal and local rates affecting the estate, etc.

Compared to those of West-European countries (France and Great Britain) the rate of death duty was very low in Russia. The bill presented to the Duma by the Ministry of Finance, prior to the War, proposed a substantial increase in its rate; it was to be a progressive duty varying either from 1 per cent to 16 per cent (proposal of the Ministry) or from 0.5 per cent to 23 per cent (proposal of the Finance Committee of the Duma). In either case the tax was to vary according to the degree of relationship existing between the deceased and his heirs. Revaluation of the estate so as to include its increase under the ownership of the deceased was likewise provided for, for the existing official estimates were often from one-fifth to one-tenth of the real value of the property. This bill, however, did not become law until after the beginning of the War.

As a consequence of the general progress of the country and the concentration of capital, the receipts from death duty more than doubled, from 6.16 million rubles in 1903 to 13.3 million rubles in 1913. Part of this increase was no doubt due to the increase in the rate of the duty after the Russo-Japanese War.

b. Duties Levied on Passenger Fares and on Goods Conveyed in Passenger Trains.

This duty, really a tax on traffic, was levied at the rate of 15 per cent on the fare or charge paid to the railway company. The receipts under this head increased, owing to the expansion of traffic during the period under consideration, from 16.7 million rubles in 1903, to 30.8 million rubles in 1913.

c. Duties Imposed on Property Insured against Fire.

All kinds of property insured against fire were subject to a duty, which constituted in effect a tax on insurance. The insurer was required to pay a definite percentage of the value of his policy (50 copecks) on every 1,000 rubles. The tax was, however, limited to 20 per cent of the total premium paid. The Treasury receipts from this duty were 4.1 million rubles in 1903, and 6.6 million rubles in 1913.

d. Stamp Duty.

The following four classes of documents were subject to stamp duty: (1) all documents presented to State Departments, (2) all deeds and documents drawn up and executed within the Empire, (3) all securities issued within the Empire by public institutions or corporations, and by limited liability or joint-stock companies, (4) all deeds and documents drawn up outside the Empire when produced for execution within the Empire.

The stamp duty was itself subdivided into two categories: (a) *the specific stamp duty* of which there existed five rates: 1.25 rubles, 75 copecks, 20 copecks, 10 copecks, and 5 copecks, according to the class of document; and (b) *an ad valorem stamp duty* which was a percentage tax on two kinds of instruments: (1) deeds and (2) bills of exchange.

Deeds were subject to a tax of 50 copecks on every 100 rubles, if the deed related to property not exceeding 10,000 rubles in value, and of 5 rubles on every additional thousand rubles. Bills of exchange were taxed at 15 copecks on every 100 rubles of their face value.

The Treasury receipts under this head rose from 44.5 million rubles in 1903, to 103 million rubles in 1913. This increase was no doubt due to the raising of the rate of the stamp duty in 1905,

which augmented the yield from this source, according to the returns of the Ministry of Finance,¹⁶ by 15 million rubles. The remaining 100 per cent increase is to be attributed to the extensive development of commerce and industry that took place during the decade preceding the War.

The total receipts under the several heads above described were as follows (approximate figures) :

<i>Denomination</i>	<i>1903</i>	<i>1909</i>	<i>1913</i>
	(millions of rubles)		
Stamp duty and registration fees	49	75	112
Duties on transfer of property:			
a. registration of deeds	18	24	35
b. free transfer of property	6	10	13
Duties on transport of passengers and goods	17	24	31
Insurance duties	4	5	7
Port dues on ships and cargoes	3	4	11
Miscellaneous duties	9	13	22
Total	106	155	231

In spite of the rapid increase shown above, the receipts from these sources appear but slight when the per capita rates in Russia and in West-European countries are compared; they were as follows in 1911 :

	(in rubles)
Russia	0.89
Germany	2.87
Austria	2.49
France	10.95
Great Britain and Ireland	7.49
Italy	3.13

The relatively slow development of business and the small commercial turnover, in comparison to West-European countries, account for the less favorable statistics for Russia. It is beyond doubt, however, that this source of public revenue contained vast possibilities, which if developed, might have supplied the Treasury with important receipts.¹⁷

¹⁶ *Ministry of Finance, op. cit.*, p. 109.

¹⁷ E. Kuhn, *op. cit.*, in *Vestnik Finansov*, 1913, No. 4, p. 149.

iii. *Indirect Taxation.*

Indirect taxes in the Russian budget comprised excise duties (on sugar, tobacco, oil, matches, etc.) as well as customs duties. The receipts from the State Monopoly of Spirits, one of the chief sources of revenue from indirect taxation, were entered under the head of property owned by the State. For present purposes, it will be more convenient to include this item of revenue in the group of indirect taxes.

These taxes comprised excise duties on sugar, spirits and beer, tobacco, petroleum and matches, and sundry minor imposts.

a. *Sugar.*¹⁸

The taxation of sugar introduced by the Law of 1881 took the following form. The cultivation of beet and other sugar-producing plants within the territory of the Empire was free of tax, but the manufacture of sugar was taxed (1) by a license for carrying on the industry and (2) by an excise duty on the output of crystallized sugar.

Licenses were charged at the rate of 5 rubles per 1,000 puds of refined sugar and the excise duty at 1 ruble 75 copecks per pud of finished sugar.¹⁹ The excise duty was refunded on export of the sugar. The Act of the 20th November 1905 established the restriction of the sugar supply. It provided that the Council of Ministers should determine for each period of sugar manufacture (1) the amount of sugar to be supplied to the home market, (2) the reserve of sugar that the refineries were obliged to maintain intact, (3) the maximum price of sugar in the home market (in case this price was exceeded, the refineries were allowed to dispose of their reserves), and (4) the average quantity of sugar to be manufactured.

An additional excise duty of 1 ruble 75 copecks per pud was levied on the sugar placed by the refineries on the home market in

¹⁸ See M. Tsekhanovsky, *Sakharnaya promishlennost v ekonomicheskoi i finansovoi zhizni Rossii* (*The Sugar Industry and its Place in the Economic and Financial Life of Russia*), St. Petersburg, 1907; Kh. Lebed-Yurchik, *Sakharnaya promishlennost v Rossii* (*Sugar Industry in Russia*), Kiev, 1909; A. Bukovetsky, *Nash sakharni rinok* (*Our Sugar Market*), St. Petersburg, 1905; etc.

¹⁹ A pud contains 40 Russian pounds and weighs approximately 16 kilograms or 35 English pounds.

excess of the quantity fixed for that particular year. In other words, this sugar was subject to double excise. These provisions had in view the equalization in the sugar industry of output and demand. In this respect Russia shared the unhealthy situation prevalent in all European sugar-producing countries. The Brussels Convention only partially abrogated the existing system of State regulation and of open and secret export bounties practised by the different countries.

Russian State Control of the sugar industry greatly impeded the development of consumption by inflating prices, and imposed unnecessary burdens on the consumer. The revenue derived by the Treasury nevertheless increased considerably owing to the expansion of the demand, and rose from 75.5 million rubles in 1903, to 149 million rubles in 1913. Both consumption and output grew steadily, the former from 13 pounds per head of the population in 1903 to 18 pounds in 1912, the latter from 63.4 million puds in 1903-1904 to 110 million puds in 1912-1913. The total acreage under sugar crops increased likewise from 493 to 712 thousand deciatines.

b. *Tobacco and Tobacco Products.*²⁰

The taxation of tobacco in Russia was twofold. There existed (1) an excise duty on manufactured tobacco, and (2) a license fee required of all tobacco factories and shops selling tobacco leaf and its products.

The excise duty was collected through the sale of *banderoles*,²¹ whose price varied according to the type and quality of the tobacco. No tobacco was allowed to be sold by factories or shops unless packed according to regulations (in boxes), with the appropriate *banderole* on the package.

The receipts from this tax were second only to those of the sugar excise and varied as follows: 49 million rubles in 1903, and 78.7 million rubles in 1913. The increase of over 50 per cent was due in

²⁰ See L. Pershke, *Aktsizno-banderolnaya sistema tabachnago naloga v Rossii i v Soedinennikh Shtatakh* (*The Excise Duty on Tobacco in Russia and in the United States*), Riga, 1890; P. Shcherbachev, *Obzor tabakorodstva v Rossii* (*Survey of the Tobacco-Growing Industry in Russia*), Vols. I and II, St. Petersburg, 1894; *Tabak* (Tobacco), published by *Glavnoe Upravlenie Neokladnikh Sborov*, St. Petersburg, 1911.

²¹ *Bauderoles* are stamps in the form of wrappers encircling the packages.

part to the raising of the rate in 1909, but chiefly to the development of consumption.

Additional taxation enacted in 1909 and levied on *cigarette tubes* and *paper* yielded 3.5 million rubles in 1909, and 4.8 million rubles in 1913.

c. *Matches.*

The taxation of matches comprised both (1) an excise duty on homemade and imported matches, levied in the form of *banderoles* and (2) a license for the manufacture of matches. These duties were doubled in 1905 and the receipts of the Treasury rose accordingly from 8.1 million rubles in 1903 to 17 million rubles in 1909. The further augmentation of these receipts to 20 million rubles in 1913 was due to an increase in consumption.

d. *Petroleum.*

The Laws of 1887 and 1892 provided only for the taxation of fuel and lamp oils, at the rate of 60 copecks per pud on the lighter oils and 50 copecks on the heavier oils. The products not intended for fuel or lamps (lubricating oils, petrol, paraffin wax) were exempt. The Law of 1905 created an uniform duty of 60 copecks per pud on rectified oil (crude oil and residues excepted).

The receipts of the Treasury from this source were 32 million rubles in 1903 and 48 million rubles in 1913, the difference being accounted for chiefly by the raising of the excise in spite of the falling off in the production of naphtha.

e. *Revenue from Taxes on Alcoholic Liquor.*²²

This head of revenue included the receipts from numerous *taxes on alcoholic liquor* and also the revenue from the *State Monopoly of Spirits*.

²² See N. Tersky, *Piteinie sbori i aktsiznaya systema v Rossii* (*Taxes on Liquors and the Excise Duty System in Russia*), St. Petersburg, 1886; E. Noldc, *Piteinoe delo i aktsiznaya systema* (*The Liquor Trade and the Excise System*), St. Petersburg, 1882-1883; V. Norov, *Kazennaya vinnaya monopol'ya* (*The State Monopoly of Spirits*), Vols. I and II, St. Petersburg, 1904; M. Friedman, *Kazennaya vinnaya monopol'ya* (*The State Monopoly of Spirits*), Vols. I and II, St. Petersburg, 1912-1914. The following official publications are of special value: *Otecheti* (Reports) of the *Glavnoe Upravlenie Neokladnikh Sborov i Kazennoi Prodazhi Piti*; *Annual Returns* of the

(i) *Duties on Alcoholic Liquor.*

In addition to the receipts from the State Monopoly of Spirits, the following duties were levied under this head: (1) excise in districts not included in the area of the monopoly, (2) excise on spirits used in varnish factories, (3) excise on spirits distilled from fruits and grapes, (4) excise on beer and mead, (5) excise on yeast, (6) licenses payable by distilleries and shops selling intoxicating liquor and (7) sundry minor duties.

The excise duty on wine and alcohol obtained from all kinds of products (except grapes, raw fruits, and berries) amounted to 11 copecks per *gradus* (1/100 of a vedro²³ of pure alcohol), whereas alcohol distilled from fruits and grapes was taxed at 7 copecks per *gradus*. The final product from the latter was however additionally taxed at 2 rubles per vedro of 40° strength.

In order to determine the amount of excise duty payable, the actual and average output of the alcohol and alcoholic products were both taken into consideration and measured by the Tralles hydrometer. A special controlling apparatus was in use for measuring the actual strength of the spirit in *gradus*. Owing to the difficulty of ascertaining the total amount of spirits produced in a distillery, an *average output* was estimated. The latter was determined in accordance with the *legal average output* of pure alcohol distilled from raw products (flour, malt, potatoes, etc.). Whenever the legal average exceeded the actual output, the former was still maintained as the basis of taxation. In order to encourage small distillers, the State exempted from taxation all production below a certain limit. In accordance with the principle governing this policy, the greater the output the smaller was the exemption. The rural distiller was granted exceptionally favorable limits of exemption.

Excise levied on spirits was refunded if these were exported, and a bounty was even granted to exporters (from 3.5 to 5 per cent of the value of the consignment). A percentage for loss during transport was likewise allowed for.

This system was in force in the districts outside the area of monopoly, and it also applied, within the latter, to spirits exported

financial results and turnover of the State Monopoly of Spirits. The enactments regulating the taxation of intoxicants were included in Volume V of the Code of Laws (ed. 1901).

²³ Vedro = 2.7 gallons.

to other districts. Alcohol bought by the State for the monopoly was exempt from the excise, as the Treasury included it in the price of *vodka* and alcohol sold direct to the consumer.

Distilleries and shops selling alcoholic drinks were required to purchase a license.

The receipts from the excise on alcoholic drinks amounted to 16.2 million rubles in 1903, and fell to 9.4 million rubles in 1909, owing to the extension of the area of the State Monopoly. They subsequently increased slightly owing to the growth of consumption in the Amour and Coastal regions (Far East) which were not included in the area of the monopoly.

The excise levied on beer afforded the Treasury another important source of revenue. Every pound of malt entering the mash-tun was subject to excise duty, and the breweries, moreover, were required to purchase a license. The Treasury derived from this excise a revenue which increased from 10.4 million rubles in 1903 to 29.6 million rubles in 1913.

The aggregate revenue from the taxation of alcoholic drinks (the monopoly excepted) increased during the decade 1903-1913 from 34.1 million rubles to 53 million rubles in consequence of the growing consumption of alcoholic drinks and the raising of the excise rates.

(ii) *The Revenue from the State Monopoly of Spirits.*

The law of the 8th June 1893 introduced experimentally the State Monopoly of Spirits (*i.e.*, the Government monopoly of the sale of spirits) in four eastern provinces of European Russia (Perm, Ufa, Orenburg, and Samara). Later, about the middle of 1894, the gradual extension of the monopoly over the whole of Russia was decided on. By the 1st August 1901, the monopoly covered all the provinces of European Russia and was being extended over Siberia. It was one of the largest State undertakings that ever existed, embracing in 1913 an area of 75 provinces with 142 million inhabitants. By that date, there were 328 stores and 25,733 shops that sold, in 1913, 104.6 million vedros for a total sum of 885.9 million rubles.

The State Monopoly of Spirits was a monopoly of sale. Within the monopolized area the right of selling alcohol and vodka belonged exclusively to the State, which either sold it direct from its

own shops or entrusted its sale to selected shops, conducted by private persons. Only retail sales were authorized, in sealed vessels with a *banderole*, and at the price fixed by the Treasury. The distillation of spirits was left in private hands, but the rectification of alcohol and the preparation of vodka were performed either in State distilleries, or in private distilleries under the direction and the control of State officials.

The maximum and minimum prices of vodka, spirits, and various liquors for the whole Empire were fixed by law, the prices for each particular district by the Ministry of Finance. The alcoholic strength of the vodka, as well as the price, were declared on a label affixed to the vessel.

In addition to the State and the private shops entrusted with the sale of spirits, the authorities might also permit the sale of vodka for direct consumption in public houses, either at the official price or even (in more expensive restaurants) at a non-controlled price.

In the area of the monopoly the State purchased the spirits it required from private distilleries at a price determined by the Ministry of Finance. The total quantity so purchased was allocated among the various distilleries in proportion to their output.

Thus the State monopoly was but a partial monopoly of the preparation and sale of certain alcoholic drinks. It extended on the one hand to *alcohol and drinks prepared from it*, without interfering in any way with other intoxicating liquors. On the other hand, it regulated the *preparation and sale* of rectified vodka and the sale of other *vodka products*. But the distillation of spirits and their rectification were left entirely in the hands of private industry.

Two reasons prompted the Government to introduce the monopoly. The monopolization of the sale of spirits was intended to divert to the Treasury the profits formerly made by public houses and other private dealers. The Government had in view, furthermore, the safeguarding of public health, by curtailing alcoholic consumption and by offering to the population only spirits that were free from harmful ingredients.

Authorities disagree as to the explanation of the increase in the revenue after the profits from the sale of vodka had been added to the excise on alcoholic liquor. According to representatives of the Ministry of Finance, as well as several other authorities, the existence

of a quasi-commercial profit was self-evident.²⁴ Others, admitting the obvious increase in the Treasury's receipts under this head, attributed it (apart from the growth of consumption) to the raising of the price of liquor sold to the consumer by the State shops.²⁵ They contended that the same result might have been obtained merely by raising the rates of the former excise duty.

Without entering into the details of this controversy, one is inclined to accept the former opinion. The revenue from the State Monopoly of Spirits doubtless derived an important additional element from the monopoly as a private commercial enterprise. It is difficult, however, to ascertain the exact amount of this increment. The table below gives the figures of the official attempt to determine it:²⁶

<i>Year</i>	<i>Gross Receipts</i>	<i>Disbursements</i>	<i>Net profits including excise (thousands of rubles)</i>	<i>Profits in excess of the excise</i>
1904	546,705	162,145	384,560	75,188
1905	611,591	170,521	441,070	110,907
1906	695,438	189,227	506,211	130,157
1907	706,528	196,142	510,386	128,138
1908	708,768	199,469	509,299	130,880
1909	720,413	193,349	527,064	156,053
1910	764,434	189,978	574,456	180,469
1911	782,077	184,431	597,646	194,385
1912	823,894	197,586	626,308	201,610

This table is based on *Svod svedeni o finansovikh resultatakh i glavnikh oborotakh po kazennoi prodazhe pitii* (Summary of the

²⁴ *Istoriya Ministerstva Finansov 1802-1902* (History of the Ministry of Finance, 1802-1902), published officially, Vols. I and II, St. Petersburg, 1902, Part II, pp. 530-531; Kashkarov, *Finansovie Itogi Poslednyago desyatiletya* (The Financial Results of the Last Decade), Vols. I and II, St. Petersburg, 1903, Vol. I, p. 198; *Ministerstvo Finansov 1903-1914* (The Ministry of Finance in 1903-1914), published officially, St. Petersburg, 1914; M. Friedman, *op. cit.*

²⁵ A. N. Rutzen, *Vinnaya monopol'ya* (The Spirits Monopoly), published in *Voprosi Gosudarstvennogo Khozyastva i Budzhetnago Prava* (Problems of National Economy and State Finance), edited by Prince P. Dolgorukov and J. Petrunkevich, St. Petersburg, 1907, p. 206.

²⁶ *Ministerstvo Finansov 1903-1914* (The Ministry of Finance in 1903-1914), published officially, St. Petersburg, 1914.

financial results and gross receipts of the State Monopoly of Spirits) for the respective years. The last column appearing in the table is arrived at by deducting the total excise in respect of all spirits sold during the year from the total net profits yielded by the monopoly, the excise being reckoned at the rate in force previous to the monopoly. But this method is far from precise, because it does not take into account the increase during this period in the price of vodka sold from the State shops.

A more accurate calculation of the quasi-private revenue earned by the Treasury as a result of the Monopoly of Spirits is given by Professor Friedman in his standard work on the question. In order to determine the exact amount of this revenue, Professor Friedman contends that the following deductions should be made from the figures of the net profits given in the official reports of the Department of the State Sale of Spirits. These deductions are calculated on the revenue which the Treasury would have made had the excise duty been retained and the monopoly dispensed with:

- (1) loss of the Treasury on licenses, roughly 20 million rubles per annum;
- (2) loss of the Treasury on the tax on commerce and industry, roughly 2 million rubles per annum;
- (3) loss incurred by the village communities, roughly 15 million rubles per annum;
- (4) loss incurred by the municipalities and the zemstvos in excess of the compensations accorded by the Treasury.

Professor Friedman thus arrives at the following figures giving the approximate quasi-private revenue of the Treasury from the State Monopoly of Spirits:

	<i>Years</i>									
	1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
	(millions of rubles)									
I. Net profits according to the figures of the Department, corrected as indicated above	396.4	457.6	521.6	528.8	526.6	546.7	597.3	622.0	650.6	700.0
II. Loss by the Treasury on licenses and on the Tax on Commerce and Industry	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0	22.0
III. Loss by the village communities	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
IV. Yield of the former excise	297.2	321.4	366.6	372.2	366.1	358.5	379.5	387.6	409.0	437.0
V. Revenue yielded by the rise in the prices	13.9	45.0	51.3	52.1	51.6	84.3	89.5	91.6	96.5	103.0
Quasi-commercial profit yielded by the monopoly	48.3	54.2	66.7	67.5	71.9	66.9	91.3	105.8	108.1	123.0

The figures of the table prove that the monopoly yielded to the Treasury an important additional revenue, amounting during the period 1903-1913 to 805 million rubles or roughly 80 million rubles per annum. The increase in this revenue from 48.3 million rubles in 1903 to 123 million rubles in 1913 is well worth noting, and also the fact that under the old system of excise the receipts of the Treasury would have been smaller by this amount.

No doubt the rate of the excise might have been raised, and the receipts correspondingly increased to substantially the level attained under the Monopoly of Spirits, but it would be a mistake to suppose that the results of this measure would have been the same either for the Treasury or for the population. An increase in the rate of the excise means an additional burden upon the consumer, whereas the same results *were obtained by the monopoly without raising the price of vodka*. Thus, during the years 1903-1913, the population was spared an additional annual expenditure of 100-120 million rubles while the Treasury was receiving about 800 million rubles a year, which, furthermore, relieved the population of taxation of an amount equivalent to this sum. Such were the results of the monopoly as a private undertaking. It consisted, as pointed out by Professor Friedman, in the appropriation to State purposes of the income formerly earned by private persons from the sale of vodka.

The budgetary importance of the monopoly must not be estimated on the basis of the above figures, but on the more comprehensive scale of its gross receipts minus its expenditure. In making this calculation, we should deduct from the net profits the losses of the Treasury from licenses and from taxes on commerce and industry, thus arriving at the following approximate figures:

(millions of rubles)		(millions of rubles)	
1904	374	1909	525
1905	435	1910	575
1906	500	1911	600
1907	507	1912	628
1908	507	1913	678

During the period 1904-1914, both the net profits of the monopoly and the receipts of the Treasury almost doubled. During this period the Treasury received 5,329 million rubles, or an annual

average of 500 million rubles, towards the expenditure of a budget which was balanced at an average of 2,000 million rubles per annum.

The important financial results of the monopoly must certainly be acknowledged. An impartial consideration of the above figures makes it impossible to consider the monopoly a financial failure or a source of loss to the Treasury. As a source of revenue and as a commercial enterprise, the State Monopoly of Spirits worked most successfully.

Among the other purposes intended to be served by the monopoly was an improvement in the quality of the spirits. Prior to the establishment of the monopoly, private dealers distilled alcohol at a low temperature, which produced a spirit containing a large percentage of extremely harmful essential oils. After the introduction of the monopoly, the amount of rectified spirits increased rapidly, and as early as 1903 out of a total of 77 million vedros of distilled alcohol, only 1 million vedros, which was used for purposes other than in the preparation of drinks, remained unrectified.²⁷ As a consequence of the beneficent operation of the monopoly, the consumption of unrectified alcohol was practically suppressed.

The part played by the monopoly in the fight against intemperance is much more disputable. It may readily be granted that the monopoly put an end to many former abuses of the commerce in intoxicating liquors (the name public-house keeper used to be a synonym for usurer; most of them not only lent money usuriously but acted as receivers of stolen goods). On the other hand, the consumption of alcohol per head of the population showed a marked tendency to increase, as may be seen from the following figures:²⁸

²⁷ A. N. Rutzen, *op. cit.*, p. 201.

²⁸ *Financial Statement* for the year 1915, ¶ 21, Receipts from the State Monopoly of Spirits.

<i>Years</i>	<i>Consumption of Alcohol per Head of the Population (in vedros of 40° Strength)</i>
1903	0.51
1904	0.54
1905	0.57
1906	0.63
1907	0.63
1908	0.61
1909	0.58
1910	0.60
1911	0.60
1912	0.62
1913	0.63

In this connection, the comparative figures of the consumption of alcohol in the various European countries are significant. If the total consumption of all alcoholic liquor is taken into account, Russia with her 2.65 liters of absolute spirit per head of population remains far behind France (22.42 liters), Belgium (12.97 liters), Great Britain and Ireland (10.84 liters), and Germany (9.54 liters). Even if the consumption of alcohol in the form of spirits alone is considered, Russia still retains one of the most favorable places, with her 2.47 liters as against France (3.54 liters), Germany (4.1 liters), Great Britain and Ireland (2.3 liters), etc.

The cause of intemperance in Russia must be sought, therefore, not in the statistics of intoxicating drinks, but in the manner in which they were consumed. In most countries, alcoholic drinks are consumed more or less regularly, whereas in Russia the consumption was most irregular and spasmodic. The Russian *muzhik* did not merely drink, but drank to get drunk, and therein lies the reason of the extensive development of drunkenness in Russia. The consumption of alcohol in the years previous to the War developed on the same scale as that of other articles in popular use (sugar, tobacco, etc.) and this development was due both to the steadily growing national prosperity and to the expansion of city life. It did not, however, constitute in itself a threatening factor. The danger to be apprehended from the growth of intemperance was only indirect. To combat it effectively, means other than the monopoly should have been resorted to, and the population raised to a higher level of civilization.

But it was the constant increase in the consumption of alcohol as well as in drunkenness that induced the Government to have recourse, on the outbreak of the War, to the heroic measure of abolishing the State sale of spirits. This measure instantly deprived the Treasury of one-quarter of its ordinary revenue.

f. *Customs Duties.*²⁹

According to the classification adopted in the Russian budget, customs duties formed the last entry under the head of indirect taxation.

In addition to the customs duties levied on imported and exported goods, fines imposed for transgressing the customs regulations, etc., were included in the same item. Most of the duties were protective, in accordance with the tariff policy prevailing in Russia. Purely revenue duties, *e.g.*, on coffee, tea, etc., constituted only a small proportion.

A special volume of this series is devoted to a detailed survey of Russian tariffs and customs duties; this work is confined to a study of their financial aspect.

The table below gives the figures of the receipts during the years 1903-1913, according to the reports of the State Audit Department:

²⁹ See M. Sobolev, *Tamozhennaya politika Rossii v XIX stoletii* (Russia's Tariff Policy in the XIXth Century), St. Petersburg, 1911; D. J. Mendeleev, *Tolkovi Tarif* (A Rational Tariff), St. Petersburg, 1891; *Sbornik svedeni po istorii i statistike vneshnei torgovli v Rossii* (Data on the History and Statistics of Russian Foreign Trade), edited by V. Pokrovsky, St. Petersburg, 1902; *Ot Petra Velikago do nastoyashchago vremeni* (The History of Russian Customs Duties from Peter the Great to the Present Day), German edition, Berlin, 1906; J. Ozerov, *Ekonomicheskaya Rossya i eya finansovaya politika* (Russia's Economics and Her Financial Policy), Moscow, 1904; etc. The figures of the customs revenue in Russia are to be found in *Ezhegodnik* (Year-book) published by the Ministry of Finance and the annual *Financial Statement* under ordinary revenue, clause 10.

<i>Year</i>	<i>Customs Revenue</i>	<i>More (+) or Less (—) than in the Preceding Year</i> (thousands of rubles)
1903	241,466	
1904	218,794	—22,672
1905	212,795	— 5,999
1906	241,270	+28,475
1907	260,477	+19,207
1908	279,250	+18,773
1909	274,317	— 4,933
1910	300,930	+26,613
1911	327,619	+26,689
1912	327,378	— 241
1913	352,917	+25,539

It is evident from this table that the revenue from customs showed a constant tendency to increase except during the years of the Russo-Japanese War, and that by the end of the decade 1903-1913 this increase amounted to 50 per cent.

The following table summarizes the fluctuations in the various items of revenue comprised under the head of indirect taxes for the period under consideration:

	<i>1903</i>	<i>1909</i>	<i>1913</i>
	(millions of rubles)		
Sugar	75.5	107.3	149.1
Tobacco	49.	45.3	78.7
Cigarette tubes and cigarette paper	...	3.5	4.8
Petroleum	31.9	41.8	48.5
Matches	8.	17.2	20.
Alcoholic drinks (beer, vodka, mead, alcohol, and yeast)	34.1	40.1	53.7
Revenue from the State Monopoly of Spirits	542.2	718.8	899.2
Customs	241.4	274.3	352.9
Total	982.1	1,248.3	1,606.9

There is a marked increase in the receipts from all items of indirect taxation which must be attributed chiefly to the steady growth of the purchasing capacity of the nation. If we compare, however, the gross receipts from excise duties levied on articles of general consumption produced at home, both as totals and per head of population, with the corresponding figures for other countries, we shall find that Russia occupies a very unfavorable position.

	1910		1911-1912		1911	
	<i>Russia</i>		<i>Germany</i>		<i>France</i>	
<i>Nature of Excise Duty</i>	<i>Millions of rubles</i>	<i>Per head rubles</i>	<i>Millions of reichmarks</i>	<i>Millions of rubles</i>	<i>Millions of francs</i>	<i>Millions of rubles</i>
<i>Taxation of Liquor:</i>						
Wine produced from grapes	.....	...	17.5	8.1	78.4	29.4
Alcohol, vodka, and liquors	604.6	3.69	179.0	82.9	339.0	127.1
Beer	19.7	0.12	254.2	117.7	14.2	5.3
Yeast, licenses, etc.	11.9	0.07	...	...	41.1	15.4
	636.2	3.88	450.7	208.7	472.7	177.2
Total						4.48
<i>Excise on</i>						
Tobacco (cigarette tubes and paper included)	69.5	0.42	42.3	19.6	411.1	154.2
Sugar	123.1	0.75	158.4	73.3	137.3	51.5
Petroleum	44.0	0.27	...	...	...	...
Matches	18.8	0.12	16.1	7.6	28.4	10.6
Salt	...	...	59.0	27.3	9.8	3.7
Sundry minor duties	...	...	19.6	9.1	11.2	4.2
	891.6	5.44	746.4	345.6	1,070.5	401.4
Grand Total						10.16

<i>Nature of Excise Duty</i>	1911		1911-1912		1911-1912	
	<i>Austria</i>		<i>Great Britain and Ireland</i>		<i>Italy</i>	
	<i>Millions of kroner</i>	<i>Millions of rubles</i>	<i>Millions sterling</i>	<i>Millions of rubles</i>	<i>Millions of liras</i>	<i>Millions of rubles</i>
<i>Taxation of Liquor:</i>						
Wine produced from grapes	13.5	5.3	0.19	...	...	...
Alcohol, vodka, and liquors	94.9	37.4	1.31	164.6	40.0	15.0
Beer	77.5	30.5	1.07	119.5	8.5	3.2
Yeast, licenses, etc.	3.1	1.2	0.03	39.7	...	...
Total	189.0	74.4	2.60	323.8	48.5	18.2
<i>Excise on</i>						
Tobacco (cigarette tubes and paper included)	185.9	73.2	2.56	0.1	232.0	87.0
Sugar	144.6	57.0	2.0	...	104.5	39.2
Petroleum	22.0	8.7	0.30	...	...	...
Matches	...	...	...	...	11.0	4.1
Salt	32.5	12.8	0.44	...	76.0	26.5
Sundry minor duties	26.9	10.6	0.37	3.8	73.1	27.4
Grand Total	600.9	236.7	0.27	327.7	545.1	204.4
						5.87

If the taxes on imported goods are added, the revenue from excise and customs will be increased as follows:

*Excise and customs duties levied on articles of general consumption.*³⁰

<i>Source of revenue</i>	<i>Russia</i>	<i>Germany</i>	<i>Austria</i>	<i>France</i>	<i>Great Britain</i>	<i>Italy</i>
	(Per capita in rubles)					
Alcohol and alcoholic drinks	3.92	3.46	2.70	4.64	8.32	0.53
Tobacco	0.43	1.02	2.56	3.90	3.59	2.50
Sugar	0.76	1.13	2.00	1.59	0.58	1.19
Petroleum	0.27	0.56	0.33	0.52	...	0.25
Matches	0.12	0.12	...	0.27	...	0.12
Salt	...	0.42	0.44	0.33	...	0.82
Sundry other articles	...	0.14	0.37	0.11	0.09	0.79
Total	5.50	6.85	8.40	11.36	12.58	6.20
Coffee	0.03	0.72	0.70	1.43	0.04	0.35
Tea	0.42	0.02	0.05	0.02	1.24	...
Grain	...	1.72	0.75	0.30	...	1.21
Total	5.95	9.31	9.90	13.11	13.86	7.76

This comparative table, in spite of the important receipts earned by the Russian Treasury from the taxes imposed on alcohol and vodka, discloses the fact that the British consumer paid more than twice as much as the Russian, and the French 18 per cent more. The receipts of the Russian Treasury from tobacco were greatly exceeded by those received from the same source by the Austrian, French, British, and Italian Treasuries. Finally, the table establishes that the incidence of indirect taxes was heaviest in France, next heaviest in Great Britain, Austria, Italy, and Germany, and that it was by far the lightest in Russia.

But if the part played in the Russian budget by indirect taxes as contrasted with direct taxes were compared with that played by indirect taxes in other countries, the figures would be much less favorable to Russia.

The incidence of all taxes per capita in the leading European countries for the year 1911 is given in the following table.

³⁰ E. Kulm, *op. cit.*, in *Vestnik Finansov*, 1913, No. 4, p. 150.

*Aggregate burden of taxation in 1911.*³¹

	Imperial Taxes					<i>Local rates</i>	<i>Total</i>
	<i>On</i>						
	<i>Direct</i>	<i>Indirect</i>	<i>transfer of</i>				
			<i>Customs</i>	<i>property</i>	<i>Total</i>		
	(Per capita in rubles)						
Russia	1.28	5.44	1.76	0.89	9.37	1.86	11.23
Germany	5.45	5.32	5.60	2.87	19.24	8.14	27.38
Austria	5.12	8.27	2.28	2.49	18.16	6.45	24.61
France	6.44	10.16	5.31	10.95	32.86	8.80	41.66
Great Britain and Ireland	10.01	7.25	7.05	7.49	31.80	16.74	48.54
Italy	5.29	5.87	3.48	3.13	17.77	5.97	23.74

As appears from these figures, the incidence of the taxes on articles of popular consumption was heaviest in Russia. This fact is made still clearer if the total receipts from all State taxes (the net profits from State monopoly included) are compared with the receipts from each source.

Amounts derived from the various State taxes.

	<i>Russia</i>	<i>Germany</i>	<i>Austria</i>	<i>France</i>	<i>Great Britain and Ireland</i>	<i>Italy</i>
	(millions of rubles)					
<i>Total receipts from taxes.</i>	1,537.6	1,250.7	519.6	1,297.2	1,437.1	618.3
<i>Direct taxes</i>	210.9	354.0	146.6	253.6	452.5	184.3
Percentage of the total	13.7	28.3	28.2	19.5	31.5	29.8
<i>Indirect taxes and cus- toms</i>	1,180.9	709.9	301.9	611.1	646.3	325.4
Percentage of the total	76.8	56.8	58.1	47.1	45.0	52.6
<i>Taxes on transfer of property</i>	145.8	186.8	71.1	432.5	338.3	109.1
Percentage of the total	9.5	14.9	13.7	33.4	23.5	17.6

It thus appears that while indirect taxation constituted not more than one-half of the aggregate tax revenue in other countries, in Russia it yielded almost four-fifths of the total.

This unfavorable proportion of receipts from direct taxes is to be attributed chiefly to the historical conditions under which the Russian fiscal system originated and to certain allied causes. The essen-

³¹ E. Kuhn, *op. cit.*, in *Vestnik Finansov*, No. 4, 1913, p. 150.

tial conditions permitting the establishment of any developed system of direct taxation are the accumulation of liquid capital, the development of industry, and the growth of city life. In spite of the rapid progress in Russia's national economy since the nineteenth century, the accumulation of capital had not, before the War, attained the proportions necessary for the introduction of an extensive and productive system of direct taxation.

The following figures will confirm this statement. In 1905 the Ministry of Finance estimated the total income of taxpayers of independent means (*i.e.*, annual incomes of over 1,000 rubles) at 1,700 million rubles, while indirect taxes alone (customs duties and expenses of the monopoly excluded) yielded to the Treasury above 600 million rubles.³²

In these circumstances, it was inevitable that indirect taxation should for some time be the principal source of revenue in Russia, and that direct taxes, which played so important a part in the budgets of wealthier European countries, should remain of secondary importance.

It must be admitted, however, that the dominant part played by indirect taxation in Russia was exaggerated, and that an adequate system of taxation was to be sought, not in the lowering of indirect taxes, but in the increase of direct taxation and in the imposition of taxes on the wealthier classes of the population, according to their capacity to pay.

These defects in the Russian system of taxation were a matter of serious concern both to the legislature (the Duma and the State Council) and to the Government.³³ In the years immediately preceding the War, Count Kokovzov, Minister of Finance, introduced in the legislative chambers several bills designed to remedy these defects.

These reforms aimed at the introduction of a general income tax in addition to the existing real taxes (land tax, house tax, tax on commerce and industry, and on interest from capital). It was fur-

³² Memorandum (*Zapiska*) laid by the Ministry of Finance before the Duma concerning the imposition of fresh taxes and the reform of several existing forms of taxation, April 1907, p. 8.

³³ Memorandum (*Zapiska*) of the Ministry of Finance on the Reform of the Existing System of Taxation, November 1915, p. 4.

thermore proposed that the existing property taxes should be re-organized so as to ensure a more equitable distribution of their respective burden. New objects of taxation were also to be found, *e.g.*, houses in rural districts (*uczda*) and capital advanced on the security of real property (mortgages). These legislative measures were intended both to increase the productivity of the direct taxes and to render the system more equitable, elastic, and proportionate.

The improvements proposed in indirect taxation provided for the raising of the rate of excise duty on certain commodities that were either luxuries or quasi-necessities (*e.g.*, the finer qualities of tobacco, cigarette tubes and paper, matches, kerosene, electric power, illuminating gas, etc.). It was also proposed to reform the Stamp Duty Law (*Ustav o Guerbovom Sborn*) and the official register containing the legal valuation of the land, on the basis of which the stamp duties, duties on deeds, and death duties were assessed. Independently of the reforms planned for the improvement of Imperial taxes, measures for the reform of local finance, both municipal and zemstvo, were also under consideration.

In conformity with these ideas, the Ministry of Finance submitted the following proposals to the legislative chambers during the period of 1905-1913: (1) introduction of an Income Tax, (2) reform of the roll of average rates of the Imperial Land Tax Levied on Properties in the Provinces, (3) revision of the Statute of the Imperial Tax on Properties in Towns, Boroughs, and Minor Urban Localities, (4) revision of the regulation of duties on the free transfer of property, (5) revision of the regulation of the Imperial Tax on Commerce and Industry, (6) tax on Real Property in Rural Localities (*uczdnaya posseleniya*), (7) alteration of several clauses of the Stamp Duty Law, (8) imposition of a War Tax, (9) reform of the Official Register of the Legal Valuation of Lands which formed the basis for the assessment of duties on the free transfer and sale of lands, (10) excise on cigarette tubes and cut cigarette paper, and increase of the rate on tobacco products and (11) improvement of zemstvo and municipal finance.

Down to the outbreak of the War, the following bills alone amongst those proposed had been voted and placed on the Statute Book: (1) the law relating to the Imperial Tax on Real Property in Towns, Boroughs, and Minor Urban Localities, and (2) the ex-

cise on Cigarette Tubes and Cut Cigarette Paper and the Increased rate on Tobacco Products.³⁴

Further laws were passed, as already explained, during the War.

iv. *Royalties.*

In addition to the receipts from taxation, the ordinary State revenue also comprised receipts from royalties and income from various State property and funds.

The former were divided into the following subheads: *Mining revenue, revenue from the mint, postal revenue, telegraph and telephone revenues*, and lastly *revenue from the State Monopoly of Spirits*. The latter having already been dealt with in connection with the general system of indirect taxation, only the remaining items of the royalties will now be discussed.

a. *Mining Revenue.*

This revenue was formerly constituted by a tax on silver, iron, copper, gold, and platinum, extracted from privately owned mines. The receipts derived by the Treasury from its prerogative right of purchasing gold (*jus praeemptionis*) and certain minor receipts composed the remainder of the revenue. At the beginning of 1903, all these taxes, as well as the prerogative right of purchasing gold, were abolished. There remained only the minor receipts from duties imposed on copper and iron smelted in the so-called "possessional foundries,"³⁵ and these imposts were of only insignificant importance in the general revenue, falling from 303,000 rubles in 1903, to 78,000 rubles in 1909, and rising again to 669,000 rubles in 1913.

b. *The Mint.*

The revenue from the coinage of silver and copper (*seigneurage*) was obtained from the difference existing between the legal and intrinsic values of the respective coins. The receipts under this subhead

³⁴ *Ibid.*, pp. 5-7.

³⁵ Possessional foundries—a limited form of ownership of foundries and adjoining lands known to the Russian law. The owners of such estates could not dispose of them without the special permission of the Mining Department (*Gorni Departament*) sanctioned by the Senate; they were liable to an annual charge by the Treasury. The formation of these estates dates back to the XVIth century.

varied greatly. In 1903, they amounted to 5.5 million rubles, in 1909 to 7.4 million rubles and in 1913 to 5.1 million rubles.

*c. The Postal, Telegraph, and Telephone Revenue.*³⁶

The revenue from the postal and telegraph services in Russia, the supply of which was a prerogative of the State, was included under the head of royalties. The telegraph, however, though declared a monopoly of the State in 1855, was subsequently permitted to be established for private purposes by railway companies, industrial enterprises, and even by private persons. The telephone service was operated partly by the State, partly by the municipal and local governments, and by private concerns (the Petrograd system was owned by the municipality, a series of local systems by provincial and zemstvo organizations, and the Moscow, Odessa, and Warsaw systems by private companies).

The revenue from these services increased substantially—it almost doubled—during the period under review, owing to the development of correspondence, parcel post, and postal orders, as will be seen from the following figures. The postal revenue amounted to 36.6 million rubles in 1903, to 58.1 million rubles in 1909, and to 79 million rubles in 1913; the number of ordinary and registered postal dispatches rose from 789 million in 1903 to 2,113 million in 1913.

The gross revenue from the telegraph and telephone systems for the same years was as follows: 21.5 million rubles in 1903, 29.6 million rubles in 1909, and 40.7 million rubles in 1913. The net revenue showed a parallel increase, rising from 32 million rubles in 1909 to 39.5 million rubles in 1913. The proportion of the net revenue (*i.e.*, gross receipts less all working expenses) to the gross receipts was higher in Russia than in Great Britain, France, or Germany.³⁷

But as regards meeting and satisfying the needs of the population, Russia was very backward as compared with other countries.

³⁶ For the organization of the Postal and Telegraph services see: P. Osadchi, *Pochtovaya, telegraphnaya i telephonnyaya soobshcheniya* (*The Postal, Telegraph, and Telephone Service*), St. Petersburg, 1908; J. Ozerov, *Pochta v Rossii i za granitse* (*The Postal Service in Russia and Abroad*), St. Petersburg, 1903; also the publications of the Central Administration of Post and Telegraphs.

³⁷ P. Osadchi, *op. cit.*; Th. von Eheberg, *Kurs Finanzovikh Nauk* (*Text-book on Finance*), translated from the German, St. Petersburg, 1913, p. 109.

She had an average of only one postoffice to every 10,380 people, while Germany had one to 1,550, Great Britain one to 1,860, France one to 3,230, and Italy one to 3,800. In this respect, the period 1903-1913 was conspicuous as an epoch in the development of the postal and telegraph services.

All the various receipts comprised under the head of royalties, may be summarized for the years 1903-1913 as follows (revenue from the Spirits Monopoly excluded) :

	1903	1909 (millions of rubles)	1913
Mining revenue	0.3	0.08	0.6
Mint revenue	5.5	7.0	5.0
Postal revenue	37.0	58.0	79.0
Telegraph and telephone revenue	21.0	30.0	41.0
Total	63.8	95.08	125.6

v. Property and Funds Owned by the State.

The Financial Statement included under this head the receipts from property owned by the State, which, in value, far exceeded the State property of other countries. It comprised immense forest areas, extensive oil fields, an important railway system, government works, and other State properties. The entire revenue under this head was divided into the following categories: (a) *Rents from land and leases*, (b) *forests*, (c) *State railways*, and *revenue from the participation by the State in the profits of privately owned railways*, (d) *government factories, works, and depots*, (e) *revenue from funds owned by the State and from banking transactions*.

a. Rents from Land and Leases.

This source of revenue consisted of specific rents (income from leasing out the State Domain and government buildings) and quasi-rents, *i.e.*, revenue from oil-fields, salt and mineral springs, collieries, fisheries, seal grounds, and other aquatic industries, etc., owned by the State.

The most important of these receipts was that yielded by the leasing out of the State Domain. The Department of Agriculture and Land Settlement published the following figures for the year 1904.

The total extent of the State Domain in the fifty provinces of European Russia was 136 million deciatines, of which the greater part consisted of non-arable land (swamps, marshes, salt marshes, quicksands, etc.) and forests. Land rents, *i.e.*, in respect of arable land, were obtained by letting the land on long or short leases; the average extent of the land so let was approximately 4.06 million deciatines. The State land rented in the whole Empire (Siberia included) on the 1st January 1913 was 6.7 million deciatines.

Of the total area of the State land leased, 87 per cent was rented by peasants. According to the principles of Russian agrarian policy, the Government did not consider these rents as a source of revenue, but as a fund to improve the economic condition of the peasantry and especially of those categories which were most in need of land.³⁸ A series of measures were adopted to facilitate the renting of land by the peasants, to exclude middlemen, to prolong the period of leases, etc. The fiscal point of view was entirely subordinated to the social and political considerations. The Government endeavored to alleviate the land famine among the peasants.

In addition to specific land rents, quasi-rents were also received from the leasing out of mills, fisheries, gardens, and similar properties. As a consequence of the Government's agrarian policy, the gross receipts from lands and quasi-rents were necessarily inconsiderable. They increased, however, from 12.6 million rubles in 1903 to 16.7 million rubles in 1909 and to 18.9 million rubles in 1913. The average income per acre showed a corresponding increase from 1 ruble 22 copecks in 1909, to 1 ruble 51 copecks in 1912.

The heading *Rents from Land and Leases* included an important item of revenue derived from the leasing out of oil-fields. The leases stipulated either the payment of a definite sum per pud of the output or a certain proportion of the aggregate output of the area leased.

The total gross receipts under this heading, which included minor receipts from fisheries, seal grounds, and other aquatic industries, and from mineral and salt springs, etc., amounted to 24.4 million rubles in 1903, to 32.8 million rubles in 1909, and to 40.6 million rubles in 1913.

³⁸ The principles of Russian agrarian policy are discussed in another volume of this series. For the method of exploitation of the Russian State Domain see D. Fleksor, *Arenda kazennikh zemel (Lease of State Lands)* in *Vestnik Finansov*, 1913, No. 13.

b. *Forests.*³⁹

The Russian State Domain comprised the most extensive area of forests in the world.

The exploitation of the State Domain consisted principally in auction sales of the timber on the forest reserves. Only a small quantity of timber was worked by the State in its own mills. The revenue from forests was an important and constantly increasing source of revenue, as may be judged from the following figures for the decade preceding the War.

<i>Year</i>	<i>Gross Receipts</i> (millions of rubles)
1904	60.8
1905	52.8
1906	58.1
1907	59.9
1908	61.6
1909	66.8
1910	74.9
1911	83.4
1912	88.1
1913	96.1

During this period, while the total increase amounted to 35.8 million rubles, the annual expenditure under this head was as follows:⁴⁰

³⁹ The problem of forestry in Russia is discussed in another monograph of this series (*Rural Economy in Russia and the War*) by A. N. Anziferov, A. D. Bilimovich, M. O. Batchev, and D. N. Ivantsov. This section is accordingly confined to the financial aspect of the question. For State forests, see D. Zaitsev, *Gosudarstvennoe Lesnoe Khozyastvo (State Forests)*, St. Petersburg, 1910; J. Ozerov, *K voprosu o nashikh severnikh lesakh (The Problem of Our Northern Forests)*, Moscow, 1911; V. Den, *Les i lesnoe khozyastvo v Rossii (Forests and Forestry in Russia)* in the periodical *Izvestiya Peterburgskago Politekhnika*, Vol. II, St. Petersburg, 1904. Also the annual reports (*otcheti*) of the Department of Forestry (*Lesnoi Departament*) and the annual reviews (*obzori*) of the Ministry of Agriculture (*Ministerstvo Zemledelya*).

⁴⁰ Review of the Work (*Obzor Deyatelnosti*) of the Department of Agriculture (*Glavnoe Upravlenie Zemledelya i Zemleustroistva*) for 1913, St. Petersburg, 1915, pp. 136, 137.

<i>Year</i>	<i>Expenditure</i> (millions of rubles)
1904	11.1
1905	10.2
1906	10.7
1907	12.3
1908	12.2
1909	12.8
1910	14.3
1911	15.7
1912	18.1
1913	22.2

By 1913, the expenditure reached 22.2 million rubles, exactly double as much as in 1904.

Notwithstanding the constant growth of the revenue from forests, it was inconsiderable in relation to the total forest acreage constituting the State Domain. The average revenue of the Treasury in 1912 was but 20 copecks per deciatine of the total forest area and 36 copecks per deciatine of forests under exploitation. Though other causes were also active—causes incident to all State-managed enterprises,⁴¹ the principal reason for the low revenue from forestry was to be found in the disadvantages resulting from the geographic distribution of the forest lands.

In spite of these economic handicaps, the revenue yielded by the forests increased steadily, especially in the decade preceding the Great War. The Russian State had thus at its disposal an important and constantly growing source of revenue, upon which it could make enlarged demands as its expenditure expanded.

*c. Profits from State Railways and from the participation in the profits of privately owned Railways.*⁴²

The Russian Government owned a very extensive railway system.

⁴¹ N. Denisov, *Les i lesnoe khozyastvo (Forests and Forestry)*, St. Petersburg, 1912.

⁴² A special volume of this series (M. Braikevich, *Transportation in Russia during the War*), is devoted to the problem of Russian railways; in this the reader will find all necessary bibliographical information. The following are only a few of the authorities consulted: P. Migulin, *Nasha novaya zhelesno-dorozhnaya politika (Our New Railroad Policy)*, Kharkov, 1903; M. Fedorov, *Puti soobshcheniya v Rossii (Communications in Russia)* in the vol-

Out of the total mileage of 63,563 versts operated in 1912,⁴³ 67.7 per cent or 43,036 versts were owned by the State, while the remaining 32.3 per cent or 20,527 versts belonged to private companies.⁴⁴ The total expenditure on railway construction at the end of 1912 had attained the sum of 7,334,469,226 rubles of which 5,389,993,125 rubles had been spent by the Government on State lines, and 1,944,476,101 rubles by private companies on privately owned lines. Out of the total national debt which, on the 1st January 1906, amounted to 7,841,164,000 rubles, 3,167,476,000 rubles or 40 per cent had been incurred for railway construction.

As a special volume of this series is devoted to a detailed survey of the railway problem in Russia, we shall here confine ourselves to the examination of its financial aspect in so far as it affected the Russian budget.

The receipts of the Treasury from railways were of a twofold nature: *revenue from State railways* and *revenue from the participation by the State in the profits of privately owned railways*.

The period 1904-1913 opened most unfavorably for the Russian railways. Towards the end of the last century, the profits from railways had begun to decrease, and after 1900 the Treasury had to cope with a constant deficit. The receipts of the State lines no longer sufficed to cover the cost of working and the amortization of the invested capital. The Treasury had in addition to disburse important sums to cover the losses sustained by privately owned lines upon whose stock the Government had guaranteed a fixed rate of interest.

In 1904, the financial distress of the Russian railway system assumed an even more serious aspect. The Russo-Japanese War and the ensuing revolutionary disturbances profoundly disorganized the entire transport service. The regular operation of the railways was interrupted and the operating expenses increased. The deficit on the

ume *Voprosi gosudarstvennago khozyaystva* (*Problems of National Economy*), St. Petersburg, 1907; Reports (*Trudi*) of the Committee for the Investigation of the Problem of Railroads in Russia (*Osobaya komissiya dlay vsesloronnyago izsledovanya zhelezno-dorozhnago dela*), St. Petersburg (the fifty-fourth volume of this series was published in 1911).

⁴³ *Verst* (or *Versta*) = 3,500 feet = 0.66 mile.

⁴⁴ K. Zagorsky and E. Geidanov, *Internal Transport in Russia, Its Trade and Commerce*, London, 1918, p. 234.

State railways amounted in 1904 to 63 million rubles, in 1905 to 89.5 million rubles, and in 1906 to 113 million rubles.⁴⁵

The special committee under the presidency of Senator Ivashchenkov, appointed, in 1903, to investigate the economic conditions of the State railway system, reported that, in its opinion, the principal cause of the deficit was the strategical aim which had dominated the construction of the railway lines. Of the total mileage constructed during 1893-1902, 27.5 per cent were strategical lines.⁴⁶ It should be observed that the total mileage constructed during this period amounted to 25,000 versts and that the first years of operation of any railway usually result in a deficit.

The loss referred to above, however, has but a relative importance, for the Russian railway lines exerted during this period an incalculable influence upon the extraordinary development of the national economic life and upon the rapid industrialization of the country, an influence which deserves to be weighed carefully in any final estimate of the position. If the opinion of experts be well founded, that the aggregate economic utility of railways considered in their various aspects exceeds from two to four times their gross receipts, then the total profits made by the Russian national economy on the Russian State railways, including the benefits conferred and the profits earned for the years 1903-1913, should be estimated at 20,000 million rubles.⁴⁷

Apart from their important influence on the country's national economy, the railways yielded to the Treasury certain other receipts immediately connected with the railways, but not included in the national budgets under the head of revenues produced by the railway system. These receipts can nevertheless be determined with some degree of accuracy. They consisted of the taxes levied on passenger tickets and on goods conveyed in passenger trains, of the stamp duty on railway receipts, and of similar duties. Economies were also realized by the Treasury in the transport of troops, military goods, and convicts, and in the free transport of the mails. The total value

⁴⁵ *Ministry of Finance, Obzor za 1904-1913 godi (Review for the Period 1904-1913)*, St. Petersburg, 1914, pp. 85 sqq.

⁴⁶ M. Fedorov, *op. cit.*, p. 72.

⁴⁷ Reports (*Dokladi*) of the Budget Committee of the Second Duma, *Zheleznaya dorogi v Rossii (Railways in Russia)*, St. Petersburg, 1907, p. 165.

of these economies, according to the estimate of the Budget Committee of the Second Duma, was approximately 40 million rubles per annum.⁴⁸

The deficit resulting from the operation of the Russian State railways compelled the Ministry of Finance to revise the rates for the transport of passengers and goods. The rates for the conveyance of sugar, salt, minerals, timber, and lumber, were raised, as well as passenger fares. Measures were taken to improve the method of operation. The increase in the rates, however, did not in any way affect the amount of consignments, which increased steadily from 4,500 million puds in 1904, to 7,000 million puds in 1912, *i.e.*, an increase of 55 per cent. The receipts from transport of goods rose correspondingly from 457 million rubles in 1904, to 736 million rubles in 1912, an increase of 61 per cent.

The substantial increase in the receipts, and the measures taken to secure the more efficient operation of the State railways, had as a necessary consequence the rapid improvement of the financial condition of the whole system. The gross receipts increased from 471.3 million rubles in 1904, to 813.3 million rubles in 1913, while the net profits rose in the same years from 107.7 million rubles to 314.3 million rubles.

The improvement effected in the State railways was reflected in the privately owned systems. The financial interest of the Russian State in private railways was of a twofold nature. On the one hand, part of the net profits of the private lines was made over to the Treasury in accordance with a ratio laid down in each company's charter; and, on the other hand, the Treasury was obliged, whenever occasion required, to make good the difference between the profits and the sum necessary to meet the fixed interest and amortization of the guaranteed stock of the private lines. Any such payments, which were recorded as debts due by the company, were to be reimbursed to the State as soon as the financial position of the company permitted. The National Budget accordingly provided, in respect of privately owned railways, for two separate heads of revenue: "receipts from the participation of the Treasury in the revenue of privately owned lines" (Clause 27 of ordinary revenue) and "obligatory payments by railway companies" which consisted of the above described reimbursements by the companies to the State.

⁴⁸ *Ibid.*, p. 172.

The financial situation of the privately owned railways in the first half of the decade under review was as unsatisfactory as that of the State railways. The profits from operation were inadequate to cover the interest and amortization on the guaranteed debentures and share capital. The Treasury had consequently to increase its appropriations for this purpose, but as soon as the financial condition of the companies improved, as it did in the latter half of the decade, these advances on the part of the State decreased, as may be seen from the following figures:

*Advances Made by the Treasury for Interest and Amortization
on Guaranteed Stock.*

1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
(millions of rubles)									
7.9	6.8	8.0	21.8	16.5	28.2	8.3	3.9	2.6	0.8

The following table affords striking evidence of the increase in Treasury receipts, in respect both of the reimbursement of the above advances and of the Government's participation in the net profits of the companies, which followed the improvement in their financial position:

Reimbursements to the Treasury and State Participation in Profits.

1904	1905	1906	1907	1908	1909	1910	1911	1912	1913
(millions of rubles)									
5.0	0.2	1.1	2.2	2.4	10.5	9.6	10.0	9.8	11.7
3.5	0.4	1.0	1.3	1.7	3.9	19.4	19.9	26.3	34.0
—	—	—	—	—	—	—	—	—	—
8.5	0.6	2.1	3.5	4.1	14.4	29.0	29.9	36.1	45.7

The net profits of the privately owned railways during the period 1904-1913 were 282.5 million rubles, of which 108.2 million rubles or 38 per cent were paid as dividends to the shareholders and 174.2 million rubles or 62 per cent to the Treasury. If the advances made by the Treasury on guaranteed stock, amounting during this period to 104.8 million rubles, are deducted, there remains a sum of 69.4 million rubles representing the participation by the State in the profits of privately owned lines.⁴⁹

⁴⁹ Ministry of Finance, *Kratki ocherk razvitya nashei zhelezno-dorozhnoi seti za desyatiletie 1904-1913* (*A Short Survey of the Development of Rus-*

The revenue from the property and funds owned by the State also included the receipts from government factories, depots, and various works, as well as those derived from State funds and from banking transactions, which should be dealt with briefly.

d. *Revenue from Government Factories, Works, and Depots.*

The Russian State owned a great variety of commercial enterprises, factories, and works. The largest gross receipts were produced by the State mines, which were situated mainly in the Ural area. The gross receipts from this source amounted to 7.8 million rubles in 1903, increased to 10.8 million rubles in 1909, and attained 21.8 million rubles in 1913. As a rule, however, the operation of the mines was not profitable, for the gross receipts did not cover the cost of working; for the years 1897-1906 the mines showed a total deficit of almost 10 million rubles,⁵⁰ but in 1910 this deficit had been reduced to 6.4 million rubles. As a consequence, the Government decided to lease these mines to private companies. Other revenue under this head comprised the receipts from government printing offices, powder mills, State Bureau of Printing and Engraving, salt factories, etc. The total revenue yielded by these sources (State mines included) rose from 11.3 million rubles in 1903 to 14.1 million rubles in 1909, and to 26 million rubles in 1913.

e. *Revenue from Funds Owned by the State and from Banking Transactions.*

The largest revenue under this head was derived from the State Bank.⁵¹ It amounted to 10.1 million rubles in 1903, rose to 22.1 million rubles in 1909, and to 31.2 million rubles in 1913. Other items of revenue were the interest from State funds deposited abroad, interest from stocks and from Treasury bills owned by the State, profits from the transactions of the Foreign Department of the Credit Office, etc. The total revenue under all these heads (the *sian Railroads during the Decade 1904-1913*), St. Petersburg, 1914, pp. 60-61.

⁵⁰ Explanatory Memorandum (*Obyasnitelnaya zapiska*) to the Report of the State Audit Department (*Gosudarstvenni kontrol*) for 1907, St. Petersburg, 1908, pp. 99-100.

⁵¹ For a more detailed examination of the organization and functions of the State Bank, see M. W. Bernatzky's monograph in this volume.

State Bank included) was 17.1 million rubles in 1903, 28.2 million rubles in 1909, and 44.5 million rubles in 1913.

The total State revenue from all sources comprised under the heads of Property and Funds Owned by the State, for the period 1903-1913, may be approximately summarized as follows:

	1903	1909	1913
	(millions in rubles)		
Rents from land and leases	24.4	32.3	40.6
Forests	62.0	63.9	92.3
State railways	453.3	567.9	813.6
Participation by the State in the revenue of privately owned railways	2.3	1.7	26.5
Government factories, technical works and de- pots	11.3	14.2	26.0
Revenue from funds owned by the State and from banking transactions	17.1	28.2	44.5
Total	570.4	708.2	1,043.5

Before terminating this survey of the ordinary revenue, two items remain to be dealt with: *Sundry receipts from the sale of State Property*, the figures of which were 658,000 rubles in 1903, 1,027,000 rubles in 1909, and 2,857,000 rubles in 1913; *Reimbursement of advances made by the Treasury*, which included obligatory reimbursements of grants made by the Treasury to various enterprises (*e.g.*, advances made under the conditions mentioned above to railway companies in respect of guaranteed stock) as well as subventions for the maintenance of special institutions supported from other sources than the State revenue. Such subventions were drawn by the Treasury from municipalities, zemstvos, and special funds. War indemnities due from Turkey and China were also included in this group of receipts. They amounted to 7.7 million rubles in 1903, to 10.8 million rubles in 1909, and to 15.8 million rubles in 1913. The total receipts from the foregoing items were 75.7 million rubles in 1903, 99.9 million rubles in 1909, and 116.6 million rubles in 1913.

The following table gives the revenue under the various heads according to the classification adopted in the budget and their percentage changes during the period 1903-1913.

	1903	1913 (millions of rubles)	Increase (+) or Decrease (—) for the decade (approximate figures)	
			Total	Percentage
Direct taxes	135	273	+138	102
Indirect taxes	440	708	+268	61
Duties	107	231	+124	117
Royalties				
(a) State Monopoly of Spirits	542	899	+357	66
(b) Other receipts	65	126	+ 61	92
State property and funds				
(a) State railways	453	814	+361	80
(b) Other receipts	118	229	+111	90
Payments on land allotments	89	1	— 88	
All other receipts	83	136	+ 53	64
Total	2,032	3,417	+1,385	68

As will be seen from this table, duties and direct taxes yielded the greatest percentage increase, whereas royalties (the Spirits Monopoly excluded, which leaves chiefly the postal and telegraph revenues), State railways, and State property followed immediately after, while the Spirits Monopoly and indirect taxes came last (reimbursements and incidental receipts excluded).

Part of this increase was doubtless due to the increase in the rate of several taxes. The Ministry of Finance estimated the additional sums thus obtained at 495 million rubles in 1913.⁵² If this sum is deducted from the gross increase, it will be found that during the period 1903-1913, the increase due to the normal development of taxable capacity equalled about 900 million rubles or approximately 45 per cent.

Since the population of Russia increased during this period by 22 to 23 per cent, the percentage increase of revenue due to normal development was double the percentage increase in population and the excess should be attributed to the rapid progress of Russia's economic prosperity.

SECTION 2. EXTRAORDINARY REVENUE.

Among the several heads enumerated above,⁵³ constituting this

⁵² The Ministry of Finance, *op. cit.*, pp. 24 *sqq.*

⁵³ See p. 13.

division of the revenue, the most important by far was the *receipts from loans and other credit transactions*. These showed a large increase during the years 1904 to 1909, when loans were contracted to cover the indebtedness resulting from the war with Japan, and also to restore the depleted balance of the Treasury. As the subject of the Russian National Debt is dealt with in another monograph of this volume, it will suffice here to indicate the total receipts from loans. The loans contracted between 1904 and 1909 yielded 2,722 million rubles, including 2,450 million rubles to cover the war expenditure and 272 million rubles to restore the Treasury's funds. No State loans were contracted after 1910, and in 1910-1912, 199 million rubles were disbursed to redeem debts before maturity.

Other resources included in this division were *permanent deposits with the State Bank*, which amounted to 20 million rubles during the years 1904 to 1913. The remaining 68 million rubles of the extraordinary revenue comprised the reimbursements of advances made by the Treasury for the purchase of foodstuffs for the population (46 million rubles) and for the purchase of seed for districts affected by drought.

The extraordinary receipts after 1911 were relatively unimportant, and contributed very little to meet the national expenditure. The total revenue from this source in 1911 was 2.6 million rubles, in 1912, 1.8 million rubles, and in 1913 about 13 million rubles. The latter sum included about 9 million rubles on account of the reimbursement of grants made for the purchase of foodstuffs.

SECTION 3. STATE EXPENDITURE AT THE OUTBREAK OF THE WAR.

The Russian State expenditure was divided into two parts, *ordinary* and *extraordinary*, corresponding to the division of the revenue. The Law of 1894 provided for the inclusion of the following under the head of *extraordinary expenditure*: cost of construction of new railway lines, war expenditure, cost of military expeditions, expenditure in connection with national disasters (*e.g.*, famines, epidemics, etc.), redemption of State loans before maturity, and several other categories of exceptional expenditure. All other disbursements were entered under the heading of *ordinary expenditure*. An analysis of the expansion of Russian State expenditure during the period 1904-1913 should therefore be divided into two parts: i. the ordinary expenditure, and ii. extraordinary expenditure.

i. *Ordinary Expenditure.*

The so-called departmental system of classification of expenditures, *i.e.*, the grouping of expenditure under the heads of the various departments, as adopted in the budget, did not accurately represent the distribution of expenditure according to the needs of the State. It was only after the creation of the representative assemblies (the Duma and State Council) that appendices, attached to the Finance Bills, began to give special summaries of expenditure. These summaries give the following picture of the scale of the State expenditure during the period 1903-1913.

	1903	1913	Increase	Percentage
	(millions of rubles)			
(1) General Administration				
Ministry of the Imperial Court	15.9	17.3	1.4	8.8
Supreme Imperial Assemblies ⁶⁴	3.7	9.4	5.7	154.
Ministry of the Interior (General Department)	61.0	105.1	44.1	72.3
Ministry of Finance (State Monopoly excluded)	183.2	247.2	64.0	34.9
Ministry of Justice	49.1	92.6	43.5	88.6
Ministry of Foreign Affairs	6.1	11.5	5.4	88.5
State Audit Department	8.4	12.1	3.7	44.
Total for General Administration	327.4	495.2	167.8	51.3
(2) Service of the National Debt	288.7	424.3	135.6	47.0
(3) National Defense				
Ministry of War	352.4	581.1	228.7	64.9
Ministry of Marine	113.9	244.8	130.9	114.9
Total for National Defense	466.3	825.9	359.6	77.1
(4) Educational and Productive Expenditure				
Holy Synod	28.5	45.6	17.1	60.
Ministry of Public Education	39.4	143.0	103.6	262.9
Ministry of Transport (State Railways excluded)	32.9	53.8	20.9	63.4

⁶⁴ These included: the Duma, State Council, and the Senate.

	1903	1913	Increase	Percentage
	(millions of rubles)			
Ministry of Commerce and Industry	40.2	64.5	24.3	60.4
Department of Agriculture and Land Settlement	31.5	135.8	104.3	331.1
Department of State Horse-breeding	2.1	3.3	1.2	57.1
Department of Posts and Telegraphs	39.1	80.2	41.1	105.1
<hr/>				
Total of Educational and Productive Expenditure	213.7	526.2	312.5	146.2
(5) State Enterprises				
Monopoly of Spirits	170.6	234.9	64.3	37.7
Railways	416.3	586.8	170.5	41.0
<hr/>				
Total for State Enterprises	586.9	821.7	234.8	40.0
<hr/>				
Grand Total	1,883.0	3,093.3	1,210.3	64.3

These figures reveal an increase in expenditure for the period 1903-1913 of 1,210.3 million rubles or 64 per cent, distributed as follows:

	(millions of rubles)
National defense (Army and Navy)	359.6
Education and productive expenditure	312.5
State enterprises	234.8
General administration	167.8
Redemption of State loans	135.

If the above are arranged in order of percentage increase, the first place will be occupied by Educational and Productive Expenditure (+146 per cent), and the second by National Defense (+77 per cent); the increase under the other heads was from 40 per cent to 51 per cent. The proportion of the several heads of expenditure to the total expenditure varied as follows:

	Percentage of Total Expenditure	
	1903	1913
(1) General administration	17.3	16.0
(2) Redemption of loans	15.2	13.7
(3) National defense	24.6	26.7
(4) Educational and productive expenditure	11.8	17.0
(5) State enterprises	31.1	26.6
<hr/>		
Total	100.0	100.0

Except for Educational and Productive Expenditure and for National Defense, the budget showed a decrease under all heads of expenditure for the year 1913 as compared with 1903, and the above figures bear eloquent testimony to the efficient administration of Russian State Finance before the War.

The expenditure on National Defense increased from 466.4 million rubles in 1903, to 825.9 million rubles in 1914, *i.e.*, by 359.6 million rubles or 77.1 per cent. If we add the expenditure for National Defense authorized under extraordinary expenditure, the total attains 944 million rubles or an increase of 477.7 million rubles.

This vast military expenditure, however, did not place Russia at a marked disadvantage as compared with the nations of western Europe. It was the natural consequence of the policy of "armed peace" that prevailed in Europe before the Great War and it corresponded to Russia's importance in the European system of balance of power. The figures below show that the increase of expenditure on National Defense was a feature common to the budgets of all great European powers.⁵⁵ They represent the increase of expenditure for the year 1913 as compared with 1903, except where otherwise stated.

	<i>Increase of Total Ordinary and Extraor- dinary Expenditure</i>		<i>Increase of Expenditure on Army and Navy</i>	
	<i>(Millions of rubles)</i>	<i>Percentage</i>	<i>(Millions of rubles)</i>	<i>Percentage</i>
Russia	1,247	59	478	102
Germany (1903-1912)	1,098	32	447	109
France	677	48	177	47
Great Britain (1904-1913)	368	25	80	13
Austro-Hungary	951	73	78	43
Italy	297	43	109	71

The greater increase in the expenditure on the army and navy in Russia may be attributed to the reorganization of the entire system of defense after the unsuccessful war with Japan, and to the necessity of rebuilding the fleet.

The growth in total ordinary expenditure for the period 1903-

⁵⁵ J. Riesser, *Finanzielle Kriegsbereitschaft und Kriegsführung*, Jena, 1913, pp. 38-41; O. Schwarz, *Die Finanzielle Stellung des Europäischen Grossmächte*, in *Finanzwirtschaftliche Zeitfragen*, Heft 5, Stuttgart, 1913.

1913 of 1,211 million rubles corresponded to the growth in the ordinary revenue of 1,385 million rubles. In spite of the substantial increase in ordinary expenditure, especially in the last years of the decade, the disbursements under this head never exceeded the revenue reserved for this purpose.⁵⁶ There was always a surplus of ordinary revenue during the years 1904 to 1913. In the first four years following the Russo-Japanese War, the increase in the ordinary revenue averaged 100 million rubles per annum, while in the second half of the decade it rose to an average of 200 million rubles. The increase of expenditure for the corresponding periods was 119 million rubles and 141 million rubles.

	<i>Ordinary Revenue</i> (millions of rubles)		<i>Average per annum</i>
1904	2,018.2	} +400.0	100
1908	2,418.0		
1913	3,417.3	+999.0	200

	<i>State Ordinary Expenditure</i> (millions of rubles)		<i>Average per annum</i>
1904	1,910.8	} +477.0	119
1908	2,387.7		
1913	3,094.2	+706.0	141

The first four years were thus marked by a larger rate of increase of expenditure than of revenue, while in the last five years the rate of increase of revenue very substantially exceeded the rate of increase of expenditure. This excess of revenue over expenditure constituted for the whole decade the enormous sum of 2,100 million rubles, to which should be added the free balances carried forward from the preceding years, amounting to 270 million rubles, which were appropriated to the general purposes of the Treasury. The total sum of 2,370 million rubles was employed partly in meeting extraordinary expenditure and partly in increasing the free balance of the Treasury, which by the end of 1913 had reached the unprecedented sum of 514.2 million rubles.⁵⁷ We shall presently see how this free balance was made use of during the War of 1914.

⁵⁶ Cf. Appendix II.

⁵⁷ Cf. Appendix I.

ii. *Extraordinary Expenditure.*

The expenditure incurred in connection with the Russo-Japanese war deserves special analysis, owing to its important effect on Russian State finance before the War of 1914.

The total expenditure caused by the Russo-Japanese war was 3,016 million rubles, which was met in the following manner:

(1) The entire free balance of the Treasury, which amounted in 1904 to 381 million rubles, was exhausted.

(2) Several special funds, amounting in all to 7.5 million rubles, were appropriated to this purpose.

(3) Loans amounting to 2,450.5 million rubles were contracted.

(4) The remainder of the war expenditure, 177 million rubles, was met from general revenue, by curtailing expenditure and raising the rates of taxes.

The curtailment of expenditure, authorized by the Finance Bill of 1904, was effected only after the beginning of the war, by reducing the appropriations under the several heads by 130 million rubles. The increased rates of taxation in the years 1905 to 1907 extended to the tax on urban property (33 per cent), to the tax on commerce and industry, and to the excise on beer (33 per cent), to the excise on yeast and matches (100 per cent), and to that on several fuel oils (20 per cent), to the stamp duty and the death duties (50 per cent), to the sale price of vodka, to the customs duty on certain imports, and to the railway charges for the transport of passengers and goods. These revised rates gave in all an additional revenue not exceeding 150 million rubles. The redemption payments, however, should be deducted, as they were diminished by one-half in 1906, and in 1907 were altogether abolished. This left the Treasury with a net gain per annum of 60 million rubles, as the revenue from land allotments yielded 90 million rubles yearly.

The following table gives the principal data with regard to the other heads of extraordinary expenditure during 1903-1913, the amount expended, its destination and the sources from which the revenue was drawn to meet it.⁵⁸

⁵⁸ The Ministry of Finance, *op. cit.*, p. 12.

	<i>Expenditure 1903 to 1913</i> (millions of rubles)
Construction of railways	763
Improvement of the railway system	18
Purchase by the State of the Warsaw-Vienna Railway	32
Advances and other payments to railway companies	73
Construction of new ports and repair of existing ports	24
National defense	455
Military expeditions to China and Persia	20
Expenditure caused by famine	403
Redemption of State loans before maturity	199
Sundry minor expenses	47
	<hr/>
Total	2,034

This extraordinary expenditure was met by:

	<i>Revenue</i> (millions of rubles)
The proceeds of loans contracted to restore the Treasury balances	272.
Sundry extraordinary receipts (permanent deposits with the State Bank, special funds appropriated for the Treasury, reimbursements of advances made for the purchase of foodstuffs)	80.
Unappropriated surpluses from the budgets of preceding years	270.
Excess of ordinary revenue over ordinary expenditure	1,412.
	<hr/>
Total	2,034.

Only 272 million rubles of the total extraordinary expenditure (other than that caused by the Russo-Japanese war) was met by borrowing. If the 199 million rubles disbursed in the redemption of debts before maturity are taken into account, 73 million rubles alone remain as the amount furnished by loans. The remainder of the extraordinary expenditure was met chiefly from the excess of ordinary revenue over ordinary expenditure and to a smaller extent from the unappropriated surplus of previous years.

SECTION 4. STATE ACCOUNTS FOR THE LAST NORMAL YEAR, 1913.

Before concluding this review of Russia's State finance, a few words should be said about the budget for the last normal year, 1913.

The complete accounts for this financial year, as issued by the State Audit Department, including ordinary as well as extraordinary revenue and expenditure, may be summarized as follows:

	<i>Revenue</i> (millions of rubles)	<i>Expendi- ture</i>
Ordinary	3,417.3	3,094.2
Extraordinary	13.8	288.7
	<hr/>	<hr/>
Total	3,431.1	3,382.9
Balances from Finance Acts of Preceding Years	21.4	.....
	<hr/>	
Grand Total	3,452.5	

The following table recapitulates the principal heads of revenue for this last normal year. It is given in order to enable the reader to understand the importance of the changes caused by the War:

	<i>Revenue</i> (millions of rubles)	<i>Percentage</i>
Consumption of alcohol		
State Monopoly of Spirits	899.3	
Excise on alcoholic liquor	53.7	
	<hr/>	953.0 27.9
Railway revenue		
State railways	813.6	
Privately owned railways (Share in the profits of railway companies and compulsory payments to the Treasury)	47.2	
Duties paid by passengers on goods conveyed in passenger and mixed trains	30.8	
	<hr/>	891.6 26.1
Indirect taxes		
Customs	352.9	
All other indirect taxes	355.2	
	<hr/>	708.1 20.7
Direct taxes		
Tax on commerce and industry	150.1	
All other direct taxes	122.4	
	<hr/>	272.5 8.0
All other revenue	592.1	17.3
	<hr/>	
Total	3,417.3	100.0

It will be observed that the most important elements in the revenue were furnished by the sale of alcohol—especially by the Spirits Monopoly—and by the railways. Of the revenue from other sources, amounting to 1,572.7 million rubles, or 46 per cent of the whole, approximately one-half was yielded by indirect taxation (708.1 million rubles).

The ordinary expenditure for 1913 was distributed as follows:

	(Millions of rubles)	Percentage
Departments of War and Marine	825.9	26.7
Working of State railways	586.9	19.0
Redemption of loans	424.4	13.7
Expenses of the Spirits Monopoly	235.0	7.6
All other expenditure	1,022.0	33.0
Total	3,094.2	

The Military and Naval Departments, as the table indicates, constituted the most important heads of expenditure. The extraordinary expenditure (288.7 million rubles) included:

	(millions of rubles)
The construction and improvement of State railways	133.3
Expenditure by the Military Department for economic and strategic purposes	127.3
Construction and improvement of commercial ports	18.

and sundry minor expenditure.

The small amount of expenditure assigned to economic and strategic purposes, in reality for the improvement of national defense, is striking. Only 127.3 million rubles were provided under this head on the eve of the War. The Ministry of War had not foreseen the approaching danger, and was devoting but little energy to the production of munitions and the improvement of the means of national defense, a very significant fact, which explains in a large measure Russia's unpreparedness for the Great War. Even in the year 1913, of the actual expenditure authorized for military purposes (127.3 million rubles), only 85.3 million rubles were employed, the balance of 42 million rubles being carried over to the following year.

It should be added that the total national debt, amounting to 9,054 million rubles in 1908 after the war with Japan, had been reduced to 8,825 million rubles by the close of 1913. At that date

(31st December 1913) the value of Treasury bills in circulation was 1,633.3 million rubles. By July 1914, at the outbreak of the War, even this sum had been reduced to 1,700 million rubles.

The foregoing epitome of the state of Russian public finance reveals how rapidly Russia had been able to recover from the blows dealt to her national economy and finance by the unsuccessful war with Japan, and how vigorous had been her economic progress. The rapid rise of the population to prosperity and the steady expansion of the national income and national capital had a very direct influence upon the condition of State finance.

In the years following the Russo-Japanese War, the State revenue regularly exceeded the expenditure in spite of the constant growth of the latter and of the increasing expenditure for cultural needs. Only a part of the increase in the revenue, as has already been explained, is to be attributed to the increased rates of taxation. The sound state of Russian public finance was due chiefly to the ever-developing national prosperity, which is further illustrated by the fact that the growth of the State revenue greatly exceeded the growth of the population. These favorable results were achieved, moreover, by means of light taxation, contrasting with the heavy burdens imposed in the countries of western Europe. It is also noteworthy that, in spite of the constant expansion of the budget, it was always balanced by a surplus of revenue over expenditure. A portion of these surpluses was invested in the construction of railways, ports and canals, but part was also employed in strengthening the national gold reserve, which had grown to considerable proportions by the outbreak of the War. At this date, Russia may be said to have been just beginning the intensive development of her productive resources and the exploitation of her national wealth. The War and the ensuing Revolution not only put an end to this unprecedented progress, but actually threw Russia several decades back in point of economic development.

CHAPTER II

REVENUE AND EXPENDITURE IN 1914

SECTION I. FIRST EFFECTS OF THE WAR UPON REVENUE.

THE Great War had an incalculable effect on Russian finance. The progressive rise in the cost of the War led to a constant increase in the expenditure, while various causes united to affect the receipts adversely. Several heads of revenue showed a marked decrease, while others disappeared completely. The blockade of the principal land and sea frontiers substantially reduced the revenue from customs, and the decrease of commercial traffic had a similar effect on the receipts from railways. The several parts of the Empire included in the area of the hostilities or occupied by the enemy yielded either a diminished revenue or no revenue at all. The conscription of so large a part of the male population could not but impair the productive resources on which the Treasury was accustomed to draw.

Similar conditions influenced the finances of other belligerent countries; but there was an additional factor that affected Russia alone. This was the prohibition of the sale of spirits, a heroic measure resorted to in the first days of the War, which immediately deprived the State of one of its chief sources of revenue.

We have already indicated in the opening paragraph of this study that in contrast to all the other belligerents, Russia was faced from the very first days of the War with two financial problems. In addition to the common problem of meeting the war expenditure, Russia had also to seek new sources of revenue to compensate for the loss resulting from the abolition of the State Monopoly of Spirits. The Russian Finance Department followed the example of other belligerent countries in adopting new measures.

One of these was merely the creation of new taxes and the increase of the rate of existing taxes. Another was the negotiation of a series of loans at home and abroad. The latter subject, which is dealt with in another monograph of this volume, will be treated here very briefly, whereas the changes introduced in the ordinary Russian budget in consequence of the War will be discussed at greater length.

The whole subject of Russian war finance will be dealt with chronologically; the finances of each year will be analyzed separately, for

this method will give the reader a clearer view and a truer perspective of the changes brought about by the cataclysm.

The year 1914 opened with very favorable financial and economic prospects. The Finance Bill voted by the legislative assemblies (the Duma and State Council) received the Emperor's assent on the 22nd June 1914. The general summary of the Finance Act is seen from the table printed in Appendix III.

The total revenue from all sources amounted to 3,585.5 million rubles¹ of which 3,572.1 million rubles constituted the ordinary, and 13.4 million rubles the extraordinary revenue. The total expenditure amounted to 3,309 million rubles, which left a surplus of revenue over expenditure of 262.6 million rubles, or if the extraordinary revenue is added (13.4 million rubles) a surplus of 276 million rubles.

This surplus was appropriated to cover 304 million rubles of the extraordinary expenditure, of which the principal items were the construction of railways (125 million rubles) and the strategic and economic expenditure of the Military and Naval Departments (107.9 million rubles). The latter was in reality expenditure on the immediate needs of national defense (reconstruction of the fleet, improvement of army supplies, etc.). It was thus the intention to meet this item of extraordinary expenditure in 1914, as in 1913, out of surplus revenue and not by new taxation.

These extremely favorable prospects were destined not to be realized. The Great War which broke out in July 1914 upset all the estimates. Whereas during the first half of 1914 revenue continued to flow in as favorably as in 1913, the second half of the year witnessed an abrupt change.²

¹ For the fluctuation of the rate of exchange during the War, see Appendix IV of M. W. Bernatzky's monograph in this volume.

² Preliminary Exchequer Reports of the State Revenue and Expenditure from 1st January to 1st July 1914, in *Vestnik Finansov*, 1914, No. 52; and from 1st July 1914 to 1st January 1915, *ibid.*, 1915, No. 26; also G. Dementiev, *Gosudarstvennie dokhodi i raskhodi Rossii i polozhenie gosudarstvennago kaznacheistva vo vremya voini s Germaniei i Avstriei do kontsa 1917 goda* (Russia's Revenue and Expenditure and the State of the Treasury during the War with Germany and Austria up to the End of 1917), *Vestnik Finansov*, 1917, No. 36.

	1914	1913 (millions of rubles)	Difference
First half-year	1,767.6	1,612.6	+155.
Second half-year	1,130.5	1,804.8	—674.3
Total	2,898.1	3,417.4	—519.3

The usual order, according to which larger receipts were recorded in the second half-year than in the first, was reversed. The receipts for 1914, compared with those for 1913, showed an increase of 155 million rubles in the first half of the year, but a reduction of 674.3 million rubles in the second half. The reduction of revenue for the whole year was 519.8 million rubles.

Before we give a detailed account of the various changes introduced into the budget in consequence of the War, a few words must be said about the nature of the credits granted for war expenditure. The amount and destination of each item of public expenditure, as well as the source and amount of all public revenue, were prescribed by the legislature, *i.e.*, by the votes of the legislative chambers. To this general rule regulating public expenditure, the following two exceptions were admitted:

(1) Additional expenditure for the needs of the army and navy might be authorized by the Emperor in the exercise of his Supreme Executive Prerogative on the recommendation of the War and the Admiralty Councils, provided that the additional expenditure could be met from economies in the budgets of the War and Navy Departments. (Clause 96 of Fundamental Laws.)

(2) The second exception is of special interest in connection with the present subject. It was defined in Clause 117 of the Fundamental Laws as follows: "Extraordinary expenditure necessitated by war and by the special preparations preceding war shall be authorized for all departments by the Supreme Executive Authority in accordance with special regulations."

As regards the public revenue, the law which required the taxes and duties, the contraction of loans, and sales of State Domain to be authorized likewise by the legislature recognized two exceptions in respect of the floating of loans.

The second of these exceptions, which alone is of immediate bearing upon the subject of this treatise, was expressed in Clause 118 of the Fundamental Laws as follows: "State loans contracted to meet

the expenditure incurred for purposes of war shall be authorized by the Supreme Executive Power." According to Russian law, therefore, both the war expenditure and the loans contracted for meeting this expenditure were exempt from parliamentary control and were sanctioned by the Supreme Executive Authority alone.

The method of granting supplies for war purposes was as follows: "From the time of the publication of the Imperial Ukase of mobilization of the army or of a part of it, the extraordinary supplies necessary for the maintenance of the mobilized troops, as well as for the expenditure imposed by the conditions of war, shall be granted in accordance with memoranda of a Special Committee consisting of the President of the Second Department of the State Council, the State Controller, and the Ministers of Finance, War, and Marine. The extraordinary grants necessary for meeting war expenditure shall be estimated for four months ahead and laid for approval before the above Committee. The Committee shall authorize the total sum of the grants and the Ministry of Finance shall allocate it to a specially consolidated 'war fund.'" All the disbursements necessitated by the War were then drawn from this fund, which was replenished from time to time by the Ministry of Finance, after new estimates had been presented to and approved by the above Committee.³

In contrast to the practice of other European countries (Great Britain, France, and Germany), the public expenditure of Russia was artificially divided into two parts. The part directly connected with war was exempt from legislative control; it was covered by means of grants drawn from the "war fund" and authorized by the Supreme Executive Authority alone. The remainder, not connected with war, constituted the ordinary budget and was subject to the votes of the Duma and State Council.

Two budgets thus existed in Russia during war time: one, a "peace budget," which did not include the war expenditure and which was voted by the legislature and published. The other, a "war budget," was neither published, nor subject to the control of the Duma and

³ Rules for demanding, granting, and allocating supplies to the Ministry of War for meeting war-time expenditure were sanctioned by the Emperor on the 26th February 1890 and were consolidated in the new Statute of War-time Administration (*Polozhenie o Polevom Upravlenii*) of the 16th July 1914. They were amended in August 1914.

State Council. The general features of the war budget, however, were made public in the "reports of the State Audit Department concerning the execution of the Finance Act." The Government undertook⁴ to publish "in due time" in these reports a full account of the war expenditure and of the means adopted to cover it, and to lay this before the legislative chambers.⁵ Both the Left wing and part of the Center of the Duma criticized this method of drawing up the budget in war time. They pointed out that the greater part of the State expenditure, that relating to the War, was exempt under this system from the effective control of the legislature. The Government, moreover, gave further cause for complaint by its very wide interpretation of the term "war expenditure." Whenever it desired to grant supplies without parliamentary sanction, it had recourse to the war fund, even if the credits had but a distant connection with war. Instances of such grants are numerous. In 1915, 400 million rubles were granted for the construction of new railway lines, the improvement of old lines, and the purchase of rolling-stock. In 1916, the construction of lines alone was estimated at 355 million rubles, while the expenditure on new rolling-stock was fixed at 300 million rubles; a total sum of 650 million rubles was thus granted for a purpose only distantly connected with the War. The Government further drew on the war fund to cover the railway deficit, which amounted to 55 million rubles in 1915, and 193 million rubles in 1916. The expenditure incurred in 1916 for the improvement of the conditions of the employees of the State railways (68 million rubles) and of the Post Office (14 million rubles), as well as the daily allowances to customs officers (60,000 rubles), were covered from the same source. The rise in the cost of living, for State employees as well as for the population in general, was no doubt due to the War; nevertheless, the charge to the war fund of the cost of this increase of salaries, which was only distantly connected with war, is difficult to justify. Further grants were made from the war fund for sanitation and hydrotechnical work at the army base, and for extensive improvements of unoccupied land areas (6.7 million rubles in 1915, and 12.3 million rubles in 1916). These appropriations covered:

⁴ *Financial Statement* for 1915, p. 20.

⁵ It is worth noting in this connection that the accounts of the State Audit Department relating to the Russo-Japanese War were published exactly ten years after the war.

hydrotechnical work in the Samara and Saratov provinces; geodetic explorations in the latter province; afforestation and ravine consolidation in the same area; irrigation of the southeastern district of the Shirvan and of the entire Mill steppe; construction of narrow-gauge railways connecting the various ports of the Romanov Canal; purchase of dredging machines; construction of cement works in the Golodnaya steppe; irrigation of the valleys of the Chu and Kaldjir; and the erection of a building for the Engineering Faculty of the Moscow Agricultural Institute. The value of these works to the State was undoubtedly great, but they had no connection whatever with the War. Even the assistance given to the population in foodstuffs, in the distribution of seeds, and in the storage of fuel was charged to the war fund.

The total expenditure for these purposes exceeded 900 million rubles in 1915, and was estimated to reach 1,200 million rubles in 1916 or 10 per cent of the aggregate expenditure. All these grants were approved by a special interdepartmental committee constituted in accordance with the decisions of the Council of Ministers of the 12th December 1914⁶ and of the 2nd January 1915. This committee concentrated all demands from the various departments for grants to be charged to the war fund. On the 17th June 1916, the Duma passed a resolution demanding that drastic measures should be taken to put an end to the extravagant expenditure on the war fund. This vote was proposed by A. S. Posnikov, *rapporteur* of the Budget Committee.⁷

The second argument adduced against this method of drawing up the war budget was entirely technical. The lack of budgetary unity, it was argued, made it impossible to obtain a comprehensive view of the national economy, and the present author must admit that he has in fact found great difficulty in obtaining such a view. The "peace budget" and the war expenditure, as well as the methods employed for meeting each, will have to be dealt with separately, but attention must be drawn to the fact that only in combination do these give a complete idea of the financial strain to which the War subjected Russia.

⁶ See p. 9, n. 1.

⁷ In spite of this vote of the Duma, Count A. A. Bobrinsky proposed in September a resolution for a vote of supply of 113 million rubles from the war fund for purchasing agricultural tools, for forestry, etc.

The Treasury receipts, as indicated above, remained normal during the first half of 1914, but an abrupt decline followed close on the outbreak of war in July.

Three principal causes contributed to bring about the decrease of the public revenue:

I. The declaration of war entirely disorganized the economy of the country, especially during the first months of mobilization. This disorganization produced very serious results in several directions. An almost complete cessation of exports on the western frontier followed the declaration of war. This seriously affected Russia, as she had been the great source of supply of foodstuffs and raw materials to the international market. After mobilization had been completed and the troops had been concentrated in the area of hostilities, the transport of goods was gradually restored to normal conditions, but before this came about, the traffic had decreased almost to one-half of its former dimensions (June, 74.2 million rubles; July, 69.3 million rubles; August, 32.8 million rubles; September, 45.3 million rubles; October, 48.2 million rubles). In addition to the direct loss to the railways, the disorganization of traffic deranged commerce, and consequently influenced indirectly the receipts of the Treasury.⁸ The moratorium and the inevitable decrease in trade demand, which followed the declaration of war, likewise involved commerce in great difficulties. Though this situation improved rapidly, it lasted sufficiently long to entail serious results for the Treasury.⁹ Lastly, the unprecedented strength of the army, which had drawn an enormous number of the male population from their work, could not but create a crisis in national industry. The conscription of labor (employment of women and minors, and improved facilities for engaging labor, etc.) helped to overcome this crisis, but during the first months of the War, before the country could adapt itself to war conditions, the labor problem was very acute and naturally resulted in diminished production in the principal branches of industry.¹⁰

⁸ For a detailed statement, see M. V. Braikevich, *op. cit.*

⁹ Explanatory memorandum (*Obyasnitelnaya zapiska*) of the Minister of Finance and the *Financial Statement* for 1915, St. Petersburg, 1914, pp. 12 *sqq.*

¹⁰ *Khozyastvennaya zhizn i ekonomicheskoe polozhenie naseleniya Rossii za pervie devyat mesyatsy voyny* (*The Economic Life and Financial Situation of the Population in Russia during the First Nine Months of the War*), St.

These and other factors affecting the taxable capacity of the population inevitably reacted on the revenue, especially in the period immediately following the commencement of hostilities.

II. Another cause of the decrease in revenue was the occupation by the enemy, almost from the outset of the War, of certain parts of the Russian territory. In the first year of the War, the enemy occupied not more than two-thirds of Russian Poland, but in the second year the enemy's occupation extended over the whole of Russian Poland, the entire provinces of Kholm, Grodno, Vilna, Kovno, Courland, and a great part of the Minsk and Volhynia provinces. The loss to the Treasury resulting from this occupation was estimated by the Ministry of Finance for the first year of the War at 69 million rubles, losses due to the seizure of railway lines included; and for the second year of the War at 226.7 million rubles, of which 141.2 million rubles was attributed to enemy occupation of the territory and 85 million rubles to seizure of the railways.¹¹

III. The third and last factor which caused a substantial decrease in the revenue on the outbreak of war was the suspension of the State sale of spirits, which subsequently gave place to the complete and perpetual suppression of the distillation of vodka and the prohibition of the sale of even wine and beer.

We have already seen, from the short account of the Spirits Monopoly contained in the first chapter of the present work, that in the ten years, 1904 to 1913, during which the system was applied to the whole of Russia, it had yielded to the Treasury an aggregate revenue of 5,329 million rubles. This revenue enabled the Government to authorize an annual public expenditure of 500 million rubles; during this period the budget was balanced at approximately 2,000 million rubles, omitting all expenditure covered by corresponding receipts. It has also been pointed out that, beyond the revenue which might have been obtained by means of excise duties, the monopoly yielded a quasi-commercial profit which amounted to 806 million rubles, and that this showed a constant tendency to increase, attaining 123 million rubles in 1913. These figures support the opinion expressed by Professor Friedman in his standard work on the Spirits Monopoly:

Petersburg, 1915, pp. 60 *sqq.*; cf. S. Prokopovich, *Voina i narodnoe khozyaistvo* (*The War and National Economy*), Moscow, 1917, chaps. V and VI.

¹¹ *Financial Statement for 1916*, Chap. I, pp. 128-129, St. Petersburg, 1915.

"The management of the Spirits Monopoly was, on the whole, very satisfactory, and even had it been entrusted to private hands, this complicated and difficult enterprise could scarcely have given better results."¹²

In the management of the monopoly, the Government was not actuated solely by financial considerations. On the contrary, it deliberately sacrificed its fiscal interests to the health, the morality, and the social welfare of the people. Professor Friedman very correctly remarks: "If the Government had had only fiscal interests in view, it might very easily have adopted a series of energetic measures for the expansion of its profits, *e.g.*, the licensing of consumption in public places, an increase in the numbers of shops, the opening of shops on holidays, the extension of selling hours, etc. These measures, however, were not resorted to, because of a very sound and fundamental desire to protect, above all, the public health."¹³ The Government took one very effective step to safeguard the health of the population when it forbade the sale of any vodka that was not rectified and freed of all harmful ingredients. In respect of temperance, however, the intervention of the Ministry of Finance proved less satisfactory. The consumption of alcohol by the population increased and disappointed the anticipations of many authorities who thought that, after the introduction of the monopoly, there would be greater moderation and regularity in drinking. All attempts to control and moderate consumption proved unsuccessful. The prohibition of the consumption of vodka in public places, the restriction to small quantities of its sale during fixed hours and for cash only, and the strict prohibition of its sale on credit or the acceptance of pledged property in payment for it, were all ineffective.

The root of the evil, however, did not lie in the monopoly as a system of taxation or in the monopoly as a method of selling vodka. The following opinion, which was expressed at a joint meeting of the Departments of the State Council at the time when the introduction of the monopoly was under discussion, is very pertinent: "Since the Treasury began making profits from the sale of liquor, the Government has not ceased in its efforts to encourage temperance, but all attempts in this direction have been fruitless. Its failure is to

¹² M. Friedman, *op. cit.*, Vol. II, p. 617.

¹³ *Ibid.*, pp. 304 *sqq.*

be explained by the incompatibility of financial profit from the sale of vodka with a high standard of morality in the population and by the inherent difficulties in fighting abuses directly connected with the sale of intoxicating liquor. All means of controlling alcoholic consumption by taxation have been resorted to in Russia: the government sale of spirits, the farming of the sale of liquor, and excise duties; but, one after the other, these measures have proved futile. In every instance complaints have been lodged against the excesses of intemperance and the abuses of public-house keepers.”¹⁴

The increase in drunkenness, however, cannot justly be attributed to the monopoly, for if the private sale of liquor had been retained, there is every reason to believe that there would have been even more intemperance. If the State taxes liquor by any method, it cannot evade the responsibility for enabling the population to drink. If, on the other hand, all taxation is dispensed with, the lower price of liquor would produce a still more menacing degree of drunkenness. The only effective but radical solution of the dilemma is complete prohibition. For complete prohibition to succeed, the monopoly would have to be abolished. Nor could private sale be tolerated, for the mere replacement of the monopoly by private sale would, as pointed out by Professor Friedman, be a great mistake, “laden with dismal consequences, for private sale is much more harmful and much less easy to suppress than the government monopoly.”¹⁵

A notable change in the monopoly was introduced at the beginning of 1914. After the retirement of Count Kokovzov from the Ministry of Finance, his successor, P. L. Bark, received an Imperial Rescript reciting the “painful pictures of public distress, the desolation of homes, the dissipation of economies, the inevitable consequences of drunkenness, which the Emperor had observed during His journey through Russia.” The Emperor demanded “drastic reforms” of the financial and economic policy and declared that “the welfare of the Treasury should not be made dependent on the ruin of the moral and economic forces of a great number of Our loyal subjects.”

The Minister of Finance was thus entrusted “with the direct task of securing temperance” and issued on the 11th March 1914 a circu-

¹⁴ Journal of Proceedings (*Zhurnal zasedani*), sessions of 5th and 7th May 1903, published as an appendix to the Memorandum (*Zapiska*) of the Ministry of Finance, No. 377, dated 14th March 1894, St. Petersburg.

¹⁵ M. Friedman, *op. cit.*, p. 621.

lar note addressed to the directors of excise duty offices, in which he defined the guiding principles of the new policy. He emphasized the difficulties of the problem. "Historical conditions have created a widespread, intemperate consumption of intoxicants in Russia. Intemperance has become a widespread habit and has taken root both in social and private life. In order to check this vice and secure temperance, an intimate contact with the population in its everyday life is indispensable, as well as constant and earnest efforts by many devoted workers." The Government volunteered to work in common with any society that was prepared to undertake an active fight against intemperance. The Minister warned the officials "not to fear a decrease in public revenue in consequence of the increase of temperance." He felt confident that "the savings made by the population in abstaining from intoxicating drinks would enter into commerce and, by creating new values, would procure additional and reliable sources of public revenue, destined to cover the increased expenditure."

While professing high hopes in the results of the legislative measures under discussion, the Minister demanded "that all means of fighting intemperance, compatible with existing laws, should immediately be adopted." Examples of the means to be employed were numerous. The requests of village communities to discontinue or forbid the sale of intoxicants would obtain a sympathetic hearing and all resolutions legally voted would immediately be executed. The opinion of the district zemstvo assemblies and of the municipal councils would be sought in regard to proposals for the opening of new liquor shops. The officials were warned that when the new restrictive measures were put into force, illicit sale and distillation would become even more dangerous than at present. "All efforts should be accordingly directed against this evil in all its forms, and the fact should be constantly kept in mind that illicit sale is known to take place in beer-shops, tea-rooms, and like institutions." In conclusion, the Minister expressed the hope that the officials would realize the importance of the task entrusted to them, and added that they would render a great service to the nation if their efforts, supported by the unmistakable desires of large portions of society, should succeed in establishing temperance."¹⁶

¹⁶ Ordinance (*Tsirkulyar*) of the Ministry of Finance, No. 2293, St. Petersburg, March 1914.

In late April and early May 1914, a conference convened at the Department of the State Sale of Liquor discussed the measures which could be taken, under the existing laws, to diminish the consumption of alcohol. The reduction of the number of places of sale, both at the request of village communities and simply by the closing of State and private shops, was the first measure contemplated. It was also proposed to suppress the latter altogether in all villages of normal size, and to retain them only in towns or localities of similar importance. Further measures were devised in consultation with the Minister of Transport: the restriction of the sale of alcoholic liquor in railroad station restaurants, the suppression of its sale on river steamers, the suppression of music, songs, games, and other entertainments in public houses, the shortening of the hours of sale in State and private shops, an increase of the number of days on which the sale of alcoholic liquor was altogether prohibited, the prohibition of sale in villages on days of assemblies, court sessions, meetings of credit associations and other gatherings, markets and fairs, and a stricter control over privately owned places of sale. Effective measures were also contemplated to fight the consumption of vodka in the neighborhood of State shops, to remove drunken people from the streets, to prevent the sale of drink to persons already under the influence of alcohol, to forbid the admission of such persons to shops where intoxicants were retailed, to prohibit drunkenness in public places, but if drunkenness occurred, to require that the intoxicated person should be withdrawn from public view.

The excise officials were henceforth required to work in conjunction with the representatives of other governmental departments and of local organizations. The minutes of the proceedings of the conference recorded that "while the principal task of excise officials was ordinarily the collection of the public revenue, certain additional duties were also to be imposed upon them quite independently of their functions as revenue collectors. Their main concern, thereafter, should be the healing of a national disease. Since they were to be brought in contact with national life in its various aspects, they were directed to devote all their efforts to the creation of a temperate country as the national goal."

It was indispensable that the officials should be in close touch with the employees of the various State departments and with the public. An intimate coöperation between the representatives of the Ministry

of the Interior and of Mutual Savings and Credit Associations was specially recommended, as the latter were often, in the villages, the principal advocates of temperance. In order to diminish the interest of private dealers in the sale of vodka, their commission on sales was reduced. The same effect was sought, as regards retailers, by lowering the usual high rate of remuneration for the delivery of vodka from the State stores to the shops. It was even contemplated that the transport of vodka should be entrusted to other agents. The suppression of the sale, except in Russian Poland, of spirits of 57° strength was considered. The undertaking to coöperate with the clergy and representatives of the zemstvo and social organizations, and with village school-teachers, was intended to encourage collective and private initiative in the fight for temperance.

The enforcement of these measures was to be rigorous; the Minister proclaimed that "on this road there was no room for hesitation or halts, and still less for digression or retreat." The temperance reform, however, was recognized as possible "only if the work was conducted with great care and caution," for the question was very vitally connected with the economic and social life of the country, with customs of the population dating from time immemorial, and with habits inherited by millions of people. The Minister wrote that "there was no room for any light-hearted experiment in a matter of such national importance; nor must the foundations of the national life be touched by inexperienced hands."

While explaining the financial estimates to the State Council (session of the 9th June 1914), the Minister called attention again to the caution necessary in the fight for temperance. He uttered a warning against enthusiasm, and added that success could be obtained only gradually and as the result of a firm enforcement of the measures adopted by the various departments in coöperation with public opinion and the legislature.

It will be seen from the foregoing account, that the Government was endeavoring, on the eve of the War, to inaugurate a gradual and cautious reform of the State sale of liquor, and to suppress all tendencies which encouraged or tolerated intemperance. But the abolition of the State Monopoly of Spirits was not even mentioned.

As a means of facilitating the maintenance of public order, when mobilization was begun on the 16th July 1914, the State shops were immediately closed and the private sale of intoxicants was consider-

ably restricted. At that time, Bark, the Minister of Finance, did not think that suppression of the sale of liquor would be found necessary after mobilization had been completed. He even laid before the Duma a bill proposing an increase in the price of vodka. In the session of the Duma of the 26th July 1914, the Minister advanced two important arguments in support of the Government's proposal: first, that vodka was not an article of prime necessity, and second, that an increase of the price would indirectly lead to a reduction of consumption. He urged that this problem, which was of such primary economic importance, should not be neglected in the stress of war, when national energy, endurance, and efficiency should be encouraged and supported by all possible means. The Duma adopted the proposal of the Minister and raised very substantially the price of vodka.

The Law of the 27th July 1914 empowered the Council of Ministers to regulate the price of spirits in all localities within the area of the monopoly, according to the following rates: (a) for distilled spirits of 40°, 12 rubles 80 copecks per vedro; (b) for rectified alcohol, 32 copecks per *gradus*;¹⁷ and (c) for the highest quality of vodka (*stoloroc*) and various liquors, 16 rubles 80 copecks per vedro. The same law raised the excise on all wines and alcohol, except that distilled from grapes, raw fruits, and berries, to a maximum of 20 copecks per *gradus* of the metallic hydrometer, or 20 rubles per vedro of pure alcohol. The excise on alcohol, distilled from fruit, grapes, and berries in specially designated distilleries, was fixed at a maximum of 14 copecks per *gradus* of the metallic hydrometer or 14 rubles per vedro of pure alcohol.

Scarcely, however, had this law been promulgated, when the Imperial Ukase of the 22nd August 1914 extended the existing prohibition to the entire duration of the War. The financial estimate of 1915, therefore, anticipated a revenue from the sale of liquor only in first-class restaurants and in clubs and from the sale of alcohol for special purposes. On the 25th September 1914, after the fiscal provisions in the financial estimates for 1915 had been settled, the Council of Ministers empowered village communities, *volosts*,¹⁸ zemstvo assemblies, and municipal councils to prohibit altogether the sale of

¹⁷ Cf. p. 33.

¹⁸ *Volost* = rural district comprising two or more village communities.

alcoholic liquor within their respective jurisdictions. These various institutions exercised their newly conferred authority on a large scale, and the reduction of the revenue from the sale of alcohol was even greater than had been anticipated. It amounted annually to about 700 million rubles, and absolute prohibition was inaugurated, at any rate in theory.

M. Shingarev, the *rapporteur* of the Budget and Finance Committees of the Duma, referred to this measure in his speech of the 18th August 1915, as follows: "From time immemorial countries waging war have been in want of funds. Revenue has always been sought either by good or by bad measures, by voluntary contributions, by obligatory levies, or by the open confiscation of private property. But never since the dawn of human history has a single country, in time of war, renounced the principal source of its revenue." Whatever opinion might be held as to the undesirability of the monopoly, many of its opponents even were obliged to admit that the moment was very ill-chosen for its abolition. It complicated to the utmost the already difficult problem of obtaining the funds required for the conduct of the War. The full economic effect of the measure could have been realized only if absolute abstinence had been enforced; but the illicit sale of alcohol threatened to become a much greater evil than the State monopoly had been. The abolition of the monopoly was not therefore entirely successful, for it was followed by a great development of the illicit sale of liquor.

The Minister of Finance himself acknowledged that after prohibition the output of the distilleries increased instead of diminishing. Professor I. Ozerov, writing in 1916, states that, "Drunkenness continues, the illicit sale of liquor proceeds undisturbed in the private saloons of luxurious restaurants. The distilleries cannot satisfy the demand for liquors. Dealers make incredible profits. Chemistry is resorted to in the home, in order to rectify methylated spirits, varnish and eau de cologne. Consumption of alcoholic liquor flourishes especially among the wealthier classes. The State has merely renounced the taxation of alcohol but has not succeeded in suppressing its consumption."¹⁹

¹⁹ Professor J. Ozerov, *Osnovi finansovoi nauki, dopolnenie za vremya voini* (*Principles of the Science of Finance, Supplement for the War Period*), Moscow, 1916, p. 59; Professor P. Migulin, in *Novi Ekonomist* (*The New Economist*), 1916, No. 15.

Though the attempt to enforce prohibition cannot claim to have been entirely successful, it cannot be denied that it exercised a certain beneficial influence in some directions.²⁰

In respect of the budget, however, prohibition entailed a sudden and substantial decrease in the public revenue. It amounted in 1914 to 432 million rubles, as compared with the estimates of the previous year, and in 1915 to 791.8 million rubles, as compared with the estimates of 1914. If the expenses of operating the monopoly are deducted (140 million rubles), the net loss to the Treasury would be reduced to 651 million rubles.²¹

The Treasury was obliged therefore to discover new sources from which to make good the deficit created in the ordinary budget by the abolition of the monopoly, before even considering the problem of meeting the additional expenditure caused by the War. To make good this deficit, several existing taxes were increased and additional taxes imposed as early as the second half of 1914. An attempt was also made at economy in the annual votes of supply, by either deferring or cancelling several heads of expenditure in the estimates of 1914 and of previous years. A detailed analysis of these measures will be given in a subsequent chapter. For the present it will be sufficient to state that the additional taxation was expected to yield 502.6 million rubles, distributed as follows:²²

	(millions of rubles)
Direct taxes	86.7
Indirect taxes	94.8
Duties	293.6
Royalties	27.5

The expenditure curtailed amounted to 341.3 million rubles, and related not only to the estimates of 1914, but also to those of previous years. The figures of this curtailment for the several years were as follows:²³

²⁰ Cf. W. T. Braithwaite, *Conditions of the Working Classes*, in this series of the *Economic and Social History of the World War*.

²¹ *Torgovo-Promishlennaya Gazeta (The Journal of Commerce and Industry)*, 1914, No. 271.

²² *Financial Statement for 1915*, Part I, pp. 25-28 (French edition), St. Petersburg, 1915.

²³ *Op. cit.*, pp. 16 *sqq.*

	<i>Estimates</i>	<i>Supplementary Grants</i>
	(millions of rubles)	
1914	244.6	66.4
1913	26.4	1.1
1912	2.8	

In spite of all these measures, the Treasury did not succeed in balancing the budget for 1914, and it will be seen shortly that there was a very large deficit.

SECTION 2. ORDINARY REVENUE.

The ordinary revenue for 1914 was estimated in the budget at 3,572,169,473 rubles, but the total receipts of the Treasury attained only 2,898,097,693 rubles, or 674,071,780 rubles less than the estimates. This discrepancy was due to the failure of the receipts to equal the estimates under 19 divisions of the budget; whereas 15 heads yielded a surplus.

The main cause of the deficit, apart from the effect of the War, was the abolition of the State sale of spirits. The surplus, on the other hand, was due to the additional taxation imposed in the second half of 1914. In the division of direct taxes the principal rates increased were those on commerce and industry, land, and urban property; in that of indirect taxes, the excise duties on the following commodities were raised: tobacco, cigarette paper tubes, petroleum products, matches, sugar, alcohol, wine, beer, etc.; in that of duties: stamp and insurance duties were increased and a provisional war tax was imposed on the transport of passengers and luggage; in that of royalties, the postal and telegraph rates were raised and a tax imposed on telephones.

All these measures were placed on the Statute Book in virtue of Clause 87 of the Fundamental Laws,²⁴ *i.e.*, they were enacted by the

²⁴ Clause 87 of the Fundamental Laws reads as follows: "During the recess of the State Duma, if exceptional circumstances call for a measure that requires legislative discussion, the Council of Ministers reports on it to the Emperor direct. This measure shall not, however, introduce any change in the fundamental laws of the State, nor in the statutes of the State Council or of the Duma, nor in the provisions concerning elections to the Council or to the Duma. The operation of such a measure ceases if the respective Ministers or Chief of Departments shall not have submitted to the Duma within the two months following the resumption of the session of the Duma a legislative bill corresponding to the adopted measures, or if this bill is not passed by either

Supreme Executive Authority, without being voted by the legislative assemblies. This method of imposing new taxes provoked a serious protest in the Duma.²⁵ Bark, Minister of Finance, defended the necessity of this procedure by the fact that the Treasury had found itself suddenly bereft of a revenue of over 700 million rubles resulting from the abolition of the State Monopoly of Spirits, which it had to make good by immediate taxation. The contingency, which occurred during the recess of the legislature (autumn of 1914), had forced the Ministry to resort to exceptional procedure.²⁶

After these introductory remarks, we may proceed to a detailed analysis of the various sources of State revenue in 1914.

i. *Direct Taxation.*

During the first year of the War, the following changes were introduced in the system of direct taxation.

a. *The Imperial Tax on Commerce and Industry.*

The reform of the tax on commerce and industry was one of the first changes enacted. As early as the 4th October 1914, a law raising the rate of this tax under several heads was placed on the Statute Book.²⁷ It provided for an increase in 1915 of 50 per cent in the rate of the principal tax on commerce and industry, levied on commercial enterprises of the first three classes (previously the rate had varied from 6 rubles to 500 rubles), on industrial enterprises of the first six classes (the previous rate had been from 2 rubles to 1,500 rubles), and on shipping agents, brokers, and notaries. The previous rates of this tax in other respects, as defined by the act of the 2nd January 1906, were retained until the 1st January 1916, with the following exceptions:

the Duma or State Council." For a detailed treatment of this question, see P. P. Gronsky, *The Effects of the War upon the Central Government Institutions of Russia*, of this series of the *Economic and Social History of the World War*.

²⁵ Debates of the Duma (verbatim report), session of the 16th and 18th February 1916, speeches of Shingarev, pp. 1755-1756, and Goduev, p. 1892.

²⁶ Debates of the Duma (verbatim report), session of the 18th February 1916, speech of the Minister of Finance, P. L. Bark, p. 1862.

²⁷ Cf. the corresponding volume of the *Sobranie uzakoneni i rasporyazheni pravitelstva* (Collection of Enactments of the Government).

(1) The tax on authorized capital and the percentage tax levied on the profits of enterprises subject to public audit were increased by 50 per cent, provided that the percentage did not exceed 30 per cent of the profits.

(2) The percentage tax levied on enterprises not subject to public audit was changed from 5 to $7\frac{1}{2}$ per cent of the profits legally estimated at the time of determining the apportioned tax. The principal tax was allowed to be deducted, as before, from the total profits before assessment of the percentage tax.

(3) The principal tax levied on employees of enterprises subject to public audit was also increased by 50 per cent.

The imposition of the tax on enterprises not subject to public audit and on members of the above professions was extended to districts previously exempt from it. The total apportioned tax was increased from 12,156,000 rubles to 19.5 million rubles. The cinematograph industries were also subjected to this tax, as from 1915.

The total increase in revenue from the tax on commerce and industry expected to result from these changes in the law was 56 million rubles. Though their full effect was scarcely anticipated before 1915, yet their influence was felt in 1914, for the new rates of the principal tax became effective in December of that year. They resulted in an excess for 1914, instead of the deficit anticipated. The total yield of this tax in 1914 amounted to 166 million rubles, exceeding the receipts (150 million rubles) from the same source during the preceding year by 16 million rubles and the estimates by 9 million rubles.²⁸

b. *Imperial Tax on Real Property in Towns, Boroughs, and Minor Urban Localities.*

The above tax was also modified by the Law of 4th October 1914. The rate of this tax for 1915 was raised from 6 to 8 per cent of the average income from the property to which it related (except in towns of Russian Poland). One per cent of the revenue was assigned to the municipalities. In Russian Poland the tax was fixed at 10 per cent of the average income, 1 per cent of which was likewise assigned to the municipalities. The increase of revenue anticipated from this source was 10 million rubles. The Law of the 4th July 1915 main-

²⁸ *Novie nalogi (New Taxes)*, in *Vestnik Finansov*, 1914, No. 47, p. 206.

tained these rates in force until the 1st January 1918. These modifications, however, were not expected to have their full effect before 1915. The revenue of the Treasury from this tax in 1914 exceeded only by a very narrow margin the sum included in the estimates: it amounted to 31 million rubles as against 30.4 million rubles.

c. Imperial Tax on Land, Dwelling Houses, and Interest from Capital.

The Law of the 24th December 1914, enacted in accordance with Clause 87 of the Fundamental Laws, raised the tax on land, which formerly varied from $\frac{1}{4}$ copeck to 17 copecks per deciatine to a new rate of $\frac{3}{4}$ copeck to $29\frac{1}{2}$ copecks per deciatine. Other land taxes were correspondingly increased, *e.g.*, the Imperial tax on artificially irrigated land was doubled; a similar increase was applied to the land taxes in the Tobolsk, Tomsk, Irkutsk, and Yeniseisk provinces, and also to the region of Altai. This increase, levied originally for 1915 only, was subsequently extended until the 1st January 1918.

The additional revenue that this tax was estimated to yield (27 million rubles) could of course not be realized until 1915. The total receipts of the Treasury in 1914 from this source were 20.5 million rubles, less than the corresponding receipts in 1913 by 3.9 million rubles and less than the official estimate by 4.7 million rubles. This deficit was entirely due to the War and especially to the fact that the enemy occupied portions of Russian territory as early as 1914.

By the decision of the Council of Ministers approved by the Emperor on the 4th October 1914 (in virtue of Clause 87, Fundamental Laws), the Imperial Tax on Dwelling Houses, except as regards its two lowest rates, was increased for the ensuing year by 50 per cent. The new rates were made effective, on the 4th July 1915, until the 1st January 1918. The increased revenue anticipated from this source after 1914 was 4 million rubles per annum. In the first year of the War, the dwelling-house tax yielded 9.7 million rubles, slightly more than the Treasury had estimated (9.6 million rubles). The total receipts from all taxes levied on real property amounted in 1914 to 77.2 million rubles, a decrease of 10 million rubles as compared with the revenue of 1913 (87.2 million rubles) and of 9.5 million rubles as compared with the figures of the estimates.

Tax on interest from capital underwent no change in 1914 and

yielded for that year 36.9 million rubles as compared with an estimated amount of 35.7 million rubles.

ii. *Duties.*

It has been pointed out in the first chapter of this work that the Russian budget grouped in this division a series of imposts that only remotely resembled duties, in the special sense of the term. Almost all duties of this type were increased after the outbreak of the War, and three new taxes on railway transport were added.

a. *Stamp Duty, Court Fees, and Registration Fees.*

The Law of the 4th October 1914 raised the rates of stamp duty as follows: (1) the first two rates of the specific stamp duty were increased from 75 copecks and 1.25 rubles to 1 ruble and 2 rubles, respectively; (2) the *ad valorem* stamp duty, which was formerly levied at the rate of 5 copecks per 100 rubles on all deeds not involving a value of more than 10,000 rubles and of 50 copecks for every additional 1,000 rubles, was raised to 10 copecks and 1 ruble, respectively. (3) The stamp duty levied on all interest-bearing securities was increased from 0.5 to 1 per cent.

The Treasury anticipated from these taxes an increase of revenue of 21.6 million rubles,²⁹ a result that was not obtained until 1915. The receipts from stamp duty in 1914 amounted to 96.7 million rubles as compared with 103 million rubles in 1913. The total revenue under all other heads of this division amounted in 1914 to 105.1 million rubles as compared with an aggregate of 111.8 million rubles in 1913, a decrease of 6.7 million rubles. This decrease was obviously due to the abrupt disorganization of commerce and to the general impairment of the national economic life in the first months of the War.³⁰

b. *Duties on the Transfer of Property.*

The Russian budget included under this head duties on deeds, that is to say the tax on the sale of real property, and duties on the transfer of property on death and duties on gifts, or death duties.

Though the rates of these duties remained unaltered, the method

²⁹ *Novie nalogi (New Taxes)*, in *Vestnik Finansov*, 1914, No. 47, p. 237.

³⁰ *Financial Statement for 1915*, p. 54 (French edition), St. Petersburg, 1915.

of their collection was greatly improved by the Law of the 4th October 1914. In order to alleviate the condition of the widows and orphans of men killed in the War, it provided that the estates inherited by their nearest relatives should be provisionally exempt from death duties. The method of valuing inherited property was also reformed. The existing legal valuations were often from one-tenth to one-fifth of the real value of the property, and as death duties were levied on these valuations, the revenue suffered proportionately. The above law, accordingly, attempted to remedy this defect by introducing a more equitable method of valuation, which had been evolved by the Financial Committee of the Duma. It provided for a closer approximation of the legal to the actual value of the property.

The new legal valuations of land property in the rural districts were based "on the mortgage value of estates as estimated by the Land-banks, on the valuation recorded in an official register, or on the amount officially adopted as the basis for regulating local rates; *the highest of the foregoing shall be accepted as the legal valuation.*"

The legal valuation of funds deposited with credit or banking institutions was fixed at their face value, failing proof to the contrary. The increase of revenue from this source was expected to reach 8 million rubles per annum (3 million rubles from death duties and 5 million rubles from the duty on the sale of property). In 1914, the duty on the sale of property (duties on deeds) yielded 26.6 million rubles or 12.2 million rubles less than in 1913 (38.8 million rubles); the death duties yielded 11.4 million rubles or 1.9 million rubles less than in 1913 (13.3 million rubles).

c. Port and Cargo Duties.

The Law of the 4th October 1914 raised the port duties by 50 per cent. The new rate was expected to yield an increase of 5 million rubles as from 1915. In 1914 the total yield from this source amounted to 7.4 million rubles, which was a decrease of 3.6 million rubles as compared with the receipts of 1913 (11 million rubles). The decrease was due, of course, to war conditions.

d. Duties on Passenger Rates and Goods Conveyed by Rail and Railway Taxes Created during the War.

As explained in the first part of this work, there existed in Russia before the War a special tax amounting to 15 per cent of the rail-

way charges for the conveyance by passenger train of passengers, luggage, and goods. This impost was in fact a tax on transport.

According to the returns of the State Audit Department, this tax yielded to the Treasury in 1914 31.4 million rubles or slightly more than in 1913 (30.8 million rubles), only 1.4 million rubles less than the Treasury had estimated. In addition to this impost, three new railway taxes were enacted immediately upon the outbreak of war. On the 27th September 1914 a provisional tax on the transport of passengers and luggage, at the rate of 25 per cent of the railway tariff, was enacted in virtue of Clause 87 of the Fundamental Laws. Two other taxes, enacted on the 15th October and the 3rd November 1914, respectively, were created by the same exceptional procedure: (1) a special provisional tax on cotton transported by rail at the rate of 2 rubles 50 copecks per pud; and (2) a provisional tax on the transport of goods varying from $\frac{1}{4}$ copeck to 15 copecks per pud.

A more detailed account of these three taxes is desirable for two very important reasons. In contrast to all the other financial measures that were resorted to in the second half of 1914, which merely increased existing rates, these three taxes introduced the principle of *new* taxation. The Government, moreover, attached particular importance to their success. While the additional revenue anticipated from all the other measures amounted to 180 million rubles, the new taxes alone were expected to yield 253 million rubles, thus covering the greater part of the Treasury's deficit resulting from the abolition of the monopoly.

The history of the railway tax, which was known as the "Imperial Duty on Passengers, Luggage and Goods Conveyed in Passenger Trains," is remarkable.³¹ The responsibility for its introduction in 1878 belongs to M. Grieg, Minister of Finance. "The economic benefit arising from the railways," wrote Grieg, "is not equally distributed among all parts of the Empire or among all classes of the population. The Treasury, however, makes its payments to the railways out of its general resources, which consist of contributions

³¹ J. A. Poplavsky, *Zheleznno-dorozhni nalog i uslovia peresmotra zheleznno-dorozhnikh tariffov v Rossii v 1914-1915 godu* (*The Railroad Tax and the Revision of Railroad Charges in Russia in 1914-1915*) in the volume *Voprosi finansovoi reformi v Rossii* (*The Reform of Russian Finance*), Moscow, 1915, Vol. I, pp. 39 sqq.

from the entire population, a great part of which is not in a position to make direct use of this mode of communication." The Minister, therefore, considered it both necessary and just that those who profited most by the railways should be required to bear part of the burden of the Treasury resulting from the construction and operation of the railways.

The State Council concurred in the opinion of the Minister, and on the 1st February 1879 imposed an Imperial duty at the rate of 25 per cent of the railway tariffs for first and second class passengers and for luggage and goods conveyed by express (*grande vitesse*), and of 15 per cent of the tariff for third class passengers.

In 1894, during the Ministry of Count Witte, a law was enacted which repealed the duty on goods transported by express and lowered the duty imposed on first and second class passengers to 15 per cent. A uniform tax of 15 per cent was thus levied on passengers of all classes, and on luggage and goods conveyed in passenger or mixed (passenger and freight) trains.³²

The Law of 1894 remained almost unaltered until the Bolshevik Revolution of October 1917.

The Imperial Railway Inquiry Committee (General Petrov's Committee) recommended in 1908 that the duty on the conveyance of passengers, luggage, and goods by passenger trains should be abolished altogether, as being economically disadvantageous to the country. It was of opinion that the levy of this tax, having regard to the relations existing between the Treasury and the railway companies, was opposed to the best interests of the population, of the railways, and of the Treasury itself.³³ This disapproval of the railway duty was shared, even before the War, by the Ministry of Finance, which controlled the railway tariffs. In a memorandum laid before the Duma in 1909, the Ministry declared that the "Railway tariffs should be those of an independent enterprise obeying its own economic principles and governed by its own special laws. The interests of national economy, as well as the most profitable operation of the railways, require that the railway tariffs should not be converted into a protective system, nor into a means of taxing the

³² *O Gosudarstvennom sbore s zhelezno-dorozhnikh perevozok v Rossii* (On the state duty on railroad transport in Russia) published in the Reports (*Trudi*) of the Committee for the Investigation of the Problem of Railroads in Russia (cf. *supra*, p. 56, n. 42), Vol. XXVII, pp. 20-23.

³³ *Ibid.*, p. 62.

population, but be regulated by the special economic laws governing that industry.”³⁴

Only a few years had elapsed since the issue of this authoritative declaration by the Ministry of Finance and of the report of the Imperial Inquiry Committee, when the European War swept them into oblivion. The necessity of making good the deficit and of discovering resources wherewith to carry on the War obliged the Government to resort to the taxation of railway traffic to an extent previously unknown, in spite of the objections indicated above.

Three distinct proposals were made at the time: (a) taxation proportional to the railway charges, (b) taxation at a specific rate or per pud of transported goods, irrespective of distance, (c) a combined system of proportional and per pud taxation.³⁵ A special Interdepartmental Committee, appointed by the Ministry of Finance to discuss these proposals, finally agreed upon the second of these. The system of specific rates, as recommended, but with some modifications introduced by Kharitonov's Committee, was then enacted in virtue of Clause 87 of the Fundamental Laws. Pursuant to the decision of the 12th November 1914 of the Committee of Ministers, which subsequently received Imperial sanction, the recommendation of the Interdepartmental Committee became a law entitled “Law Imposing a Provisional War Tax on Goods Conveyed by Rail in Passenger Trains and by Express or Freight.”³⁶

³⁴ K. J. Zagorsky, *Zheleznodorozhni tarifi v Rossii i Germanii v svyazi s ekonomicheskoi politikoï etikh stran* (*The Railway Rates in Russia and Germany and the Economic Policy of Those Countries*); materials for the revision of Russo-German Treaty of Commerce, published by the Ministry of Finance, St. Petersburg, 1914, p. 17.

³⁵ a. *Journal of the Proceedings (Zhurnal) of the Special Conference (Osoboe Soveshchanie)* of the Department of Railroads on the form and rates of the provisional war tax on luggage and goods carried by rail, sessions of the 27th and the 29th August 1914. b. Minutes (*protokol*) of the Special Committee of the Railroad Congress on the methods of collecting the war tax on goods conveyed by rail, the 2nd September 1914. c. *Journal of the Proceedings of the Railroad Rates Committee of the Congress of Representatives of Commerce and Industry for the 25th September 1914*, No. 9; the 27th September, No. 10; the 16th October, No. 13.

³⁶ *Sobranie zakoneni i rasporyazheni pravitelstva* (*Collection of Enactments of the Government*), No. 308, 12th November 1914; cf. *Sbornik tariffov rossiskikh zheleznikh dorog* (*Manual of Rates and Charges of Russian Railroads*), No. 2363, 13th November 1914.

The Government itself was well aware of the defects of this measure, when enacting it. The following opinion is recorded in the minutes of the proceedings of the Council of Ministers assembled to discuss the question. "The Council observed that the tax under consideration would in its opinion be a heavy and unequal burden on the population because of the uniformity of the tax levied irrespective of the distance covered." The revision of the railway tariffs so as to obtain the maximum revenue for the Treasury, with the least possible damage to the interests of agriculture, commerce and industry, required, however, much time for its elaboration. "The Council of Ministers therefore considered it expedient to circulate widely the information that the proposed taxes were only a provisional measure due to the extraordinary circumstances of war. It recommended further that the Minister of Finance should be empowered to begin at once the revision of the railway tariffs in order to ascertain the maximum increase in Treasury revenue that could be derived from the transport system, and in order to replace the provisional taxes at the earliest possible date by a permanent scale of duties."

The provisional war tax on the transport of goods was very unfavorably received by the public press, the representatives of commerce and industry, the legislative assemblies, and especially the Duma. The report of the Budget Committee of the Duma on the estimates for 1915 contains the following remark: "the Budget Committee considers it its duty to declare that its persistent protests against the hurried imposition of taxes in virtue of Clause 87 of the Fundamental Laws are further justified by the war tax on transport. This tax proved so impracticable that it had to be altered immediately after its introduction. In several instances the tax proved prohibitive and led to the resumption of transport by caravan for both short and comparatively long distances."³⁷ M. Alexeenko, the *rapporteur* of the Budget Committee, supplemented this remark by a declaration that the tax had a serious effect on industrial and commercial receipts, practically put an end to railway transport for short distances, imposed a double taxation on goods, and exerted a far-reaching influence on prices.³⁸

³⁷ Report (*doklad*) of the Budget Committee on the *Financial Statement* for 1915. p. 30; cf. S. Prokopovich, *op. cit.*, p. 93.

³⁸ Debates of the Duma, session of the 28th January 1915; verbatim report, p. 96; St. Petersburg, 1915.

The attitude of the representatives of commerce and industry, though very hostile to the tax, was less so than might have been expected. The revision of the tariffs, which the Government intended to substitute for the provisional tax, involved a universal increase in the rates, which was considered by these representatives as more injurious than the provisional tax. The latter, however, in their opinion, "affected unequally various industries, unsettled the economic equilibrium that had grown up between different parts of the country, was incapable of accomplishing its fiscal purpose, and seriously endangered the national economy."³⁹ They were, however, ultimately reconciled to the measure, after the Government had removed its most objectionable features.

All the inherent vices of the new tax became apparent as soon as it was applied. To begin with, the war tax introduced complete confusion in the existing scale of railway tariffs. Before the adoption of this measure, the transport of goods per pud by passenger trains used to cost three times as much as the corresponding transport by express, from four to eight times as much as the corresponding transport of expensive goods by freight, and from ten to thirty times as much as that of cheap goods by freight. Owing to the different principles governing the application of the new tax (proportional⁴⁰ tax for passenger trains and specific [per pud] tax for express and freight), the former ratios of prices for the different kinds of consignment were entirely modified. One consignment that was formerly from three to four times as expensive as another became now from one-tenth to one-fourth the other's rate, and that whose rate used to be from one-thirtieth to one-tenth of the rate of another now became from one and a half to four times as high.

Even under the former system, carriage by freight for distances of from 5 to 10 versts and that by express for distances of from 5 to 20 versts used to be comparatively more expensive than carriage by passenger trains. This was due to the additional charge levied on the former kind of transport, from which passenger traffic was exempt. But the effect of this discrimination in favor of passenger traffic was confined to transport for short distances and upon the

³⁹ *Journal of the Proceedings of the Railroad Rates Committee of the Congress of Representatives of Commerce and Industry, No. 9, the 25th September 1912.*

⁴⁰ *Cf. supra, p. 97.*

whole gave rise to no serious objection. The new tax, however, made this difference many times greater and extended it also to long distances, thus disorganizing entirely the ratio between the existing tariffs. In comparison to the transport charges by passenger train, the tariffs by express became more expensive on a distance up to 125 versts; the same was true also of the highest tariffs by freight for a distance of from 40 to 65 versts, and for the average tariffs for 20 to 30 versts. The lowest rates by freight which used to be one-twentieth of the tariff by passenger train became, after the introduction of the tax, for distances of from 5 to 10 versts, from one and a half to two times as expensive as the latter.

This gross maladjustment of the rates had an immediate and startling effect. M. Poplavsky makes the following very significant observation: "As soon as the war tax was applied, all railway stations in the neighborhood of Moscow became packed with goods, especially with textile products, registered for transport by passenger trains. The passenger service was not prepared to transport goods on so large a scale, and its facilities were technically inadequate for such a purpose. (Textiles had usually been transported by freight and only rarely by express.) There was now, however, no other solution than the conveyance of textiles by passenger train. The following extraordinary situation was created: Hundreds of people were conveyed in freight trains, proceeding at their normal speed (in *teplushkas* or freight cars); sick and wounded soldiers were reduced to the same necessity, whereas textiles, as a result of the farcical application of the railway tax, were transported in passenger trains."⁴¹

Besides this confusion in the transport system, another result of the change was an anomalous relation between the rates of the new tax and the tariffs for short distances. The tax on consignments for short distances, which was three, four, five, or even six times as heavy as the railway tariff, severely affected the existing industrial and commercial relations between the regions in the neighborhood of the markets. In view of this, as early as January 1915, the Ministry of Finance accepted the proposal of the Interdepartmental Conference, convened at the Department of Railroads, that the provisional tax should never be allowed to exceed 50 per cent of the tariff. This measure corrected to a large extent the disastrous ef-

⁴¹ I. Poplavsky, *op. cit.*, pp. 59 *sqq.*

fects of the tax. But in most cases, as for instance in the transport of cheap goods, the tax remained a heavy burden. The final result of the measure was the encouragement of transport by caravan, especially for valuable commodities and for short distances. M. Poplavsky estimates the decrease in transport by rail, within a radius of a hundred versts, at 15 per cent for valuable commodities, 10 per cent for articles of average, and 3 per cent for goods of general consumption.⁴²

The war tax on the carriage of goods averaged not less than 2.5 copecks per pud, which was an increase of 25 per cent on the rates. Such an indiscriminate increase was by itself a heavy burden on transport, but the relative influence of the tax, owing to its unequal effects on industry, was even worse. The burden of the tax fell most heavily on cheap commodities, articles of general consumption, raw material, and fuel, which were thus made subject to a tax varying from 30 to 40 per cent, or even 80 per cent. More expensive commodities, such as textiles, escaped much more lightly with a tax of only 10 per cent. Several specific rates, which had been levied on the basis of the pud, had later to be lowered because of their injurious effects upon trade.

The tax applied not only to finished goods, but also to fuel, raw material, and any additional articles employed in processes of manufacture. The combined imposts on these were occasionally two or three times as heavy as the tax on the transport of the finished goods.

As a consequence of the above situation, the Government was literally overwhelmed with petitions for the diminution of the tax. The majority of these petitions were rejected because the Government was guided by the two following principles: that all private interests must be subordinated to the needs of national finance, and that as the demand for industrial goods since the outbreak of war had generally exceeded the supply, the entire burden of the new tax would be transferred to the consumer. As may be inferred from this reasoning, the Government regarded the railway tax essentially as an universal indirect tax on goods transported by rail. Undoubtedly this argument was perfectly valid in war-time. Indeed, from the very outbreak of the War demand not unfrequently exceeded supply and

⁴² I. Poplavsky, *op. cit.*, p. 73.

prices therefore depended on the cost of production in enterprises where conditions were least favorable. The burden of the railway tax was not only entirely transferred to the consumer, but enterprises that enjoyed a more favorable situation as regards the tax were in a position to draw a profit therefrom. "Under normal conditions, such an indiscriminate and unequal levy as the railway tax, which favored certain enterprises to the detriment of others, would most certainly have seriously upset the national economy."⁴³ But in spite of all its defects, the railway tax proved very productive. It yielded in 1915 112.9 million rubles. If the receipts from the tax on the conveyance of passengers, luggage, and goods in passenger trains are added, the total revenue of the Treasury from this source amounted to 163 million rubles.

In addition to the foregoing taxation of railway transport, a further tax was imposed, at the rate of 25 per cent of the railway rates, on passengers, luggage, and goods carried by passenger train. If this tax is added to the already existing duty of 15 per cent of the railway rates, we find that the total State imposts on this form of transport amounted to 40 per cent of the rates, which was from two to four times as much as the corresponding taxes in other countries.

Another provisional war measure was a tax levied at the rate of 2 rubles 50 copecks per pud on all ginned cotton, whether pressed or loose, of Russian production, that was registered for transport at the stations of the Central Asiatic, Tashkent, and Transcaucasian railways, at the ports of the Caspian Sea and of the Volga and Oka Rivers, and at railway stations situated at a distance not exceeding 100 versts from these ports. Further enactments (the 1st January, the 15th, the 19th, and the 28th April, and the 30th October 1915) enlarged the list of the stations to which this tax was applicable; the stations of the Transbaikal, Siberian, Omsk, and Bokhara railways were then added, as well as the ports of the Kama River and Maria Canal system and the railway stations in these areas. Cotton waste, on the other hand, was exempt, and also cotton destined for local transport by the lines of the Fergan and Bokhara railways.

The introduction of this special tax on cotton was inspired by the

⁴³ I. Poplavsky, *op. cit.*, p. 114.

absence of any foreign competition after the outbreak of war, a state of things that contributed greatly to increase the price of cotton products. This particular tax was expected to yield annually 30 million rubles, and the total anticipated from the three new taxes was 253 million rubles per annum. The total actually received in 1915 by the Treasury was roughly 195 million rubles.

e. Duties on Property Insured against Fire.

These duties, levied before the War at the rate of 50 copecks per 1,000 rubles of the face value of the insurance policy, were increased by the Law of the 4th October 1914 by 50 per cent, provided that the amount of the tax did not exceed 30 per cent of the premium paid. The increase of revenue estimated from this source after 1915 was 4 million rubles. In 1914, these duties had yielded 6.5 million rubles, or 98,000 rubles less than the revenue of the preceding year.⁴⁴

f. Sundry Duties.

The various duties comprised in this division remained unaltered after the outbreak of war. Their total yield attained 20.2 million rubles in 1914, which was 2.3 million rubles less than in 1913 (22.5 million rubles) and 299,000 rubles less than had been estimated.

iii. Indirect Taxes.

On the outbreak of war, the Russian system of indirect taxation underwent far-reaching changes. As early as July 1914, a general increase was enacted in almost all indirect taxes and its effect was immediately felt. The suppression of the State sale of liquor, on the other hand, deprived the Treasury of the greater part of its revenue from the consumption of alcohol.

During 1914, after the beginning of the War, the following changes were introduced in the several indirect taxes:

a. Revenue from Alcoholic Liquor and the State Monopoly of Spirits.

The revenue from alcoholic drinks included, as indicated in a former chapter, the receipts from a series of taxes levied on alcoholic liquor and the revenue from the State Monopoly of Spirits.

Taxes on Alcoholic Liquor. The general excise levied, at the rate of 11 copecks per *gradus*, on alcohol and wine, was raised, by the Law

⁴⁴ Figures published by the State Audit Department.

of the 27th July 1914, to 20 copecks per *gradus* or 20 rubles per vedro of pure alcohol. The excise levied at the rate of 7 copecks per *gradus* on alcohol distilled from grapes and fruit was by the same law raised to 14 copecks per *gradus*, or 14 rubles per vedro of pure alcohol. The Law of the 11th November 1914, enacted in virtue of Clause 87 of the Fundamental Laws, increased the excise on beer of 3° strength to 6 rubles per vedro, and on beer between 3° and 3.7° to 9 rubles per pud of malt employed. Breweries dealing with less than 2,000 puds of malt were subject to a lower excise: 4 rubles per pud of malt (beer under 3° strength) and 9 rubles per pud of malt (beer between 3° and 3.7° strength). The Law of the 4th October 1914 also raised the excise on home-made yeast from 20 copecks to 32 copecks, and on imported yeast from 24 copecks to 36 copecks per pud. The returns of the State Audit Department show that in spite of the fact that these measures were immediately enforced, the total revenue from alcoholic liquor amounted only to 41.3 million rubles, which was 12.4 million rubles less than the revenue of the preceding year (53.7 million rubles) and 14.2 million rubles less than had been estimated. This decrease was due to the diminishing receipts from the excise on alcohol, wine, beer, and mead, and from the sale of licenses. It may be attributed further to the prohibition of the free sale of alcohol, vodka, and various liquors after the early part of August 1914, and to the suppression of the sale of wine. These measures naturally reduced the output of wine, beer, and alcohol, as well as the sale, to public houses and shops, of licenses to retail wine and beer.

State Monopoly of Spirits. As the outbreak of the War was marked by the prohibition of the State sale of alcoholic liquor, the year 1914 was the last year of the operation of the monopoly. The State Monopoly of Spirits had yielded to the Treasury, during the nineteen years of its existence (1895-1913), gross receipts amounting to 9,600 million rubles or, if the working expenses (2,700 million rubles) be deducted, net profits totalling 6,900 million rubles. According to the figures given by Professor Ozerov, this total represents 5,100 million rubles of excise duties and 1,800 million rubles of quasi-commercial profits.⁴⁵ In the last year of its existence, the

⁴⁵ J. Ozerov, *op. cit.*, p. 60. The figures of the commercial profit given by Professor Ozerov do not correspond to the figures quoted in the first chapter of the present work. These are taken from the standard work on the question

monopoly was operative in 61 excise districts, including 65 provinces and 10 territories; but the Transcaucasian, Central-Asiatic, Amour, Coastal (Far East), Kamchatka, and Sakhaline regions were excluded from the area of its operation. The aggregate sale of alcoholic liquor in 1914 amounted to 54,533,700 vedros (40°) as compared with 104,660,534 vedros sold in 1913 and 96,522,429 vedros in 1912. The ratio of decrease was thus 47.89 per cent as compared with 1913, and 43.5 per cent as compared with 1912. As the sale of alcohol for special purposes (perfumery, cosmetics, and technical, educational, and scientific uses) amounted in 1914 to 1,303,471 vedros, and as only 788 vedros were exported, the general consumption at home was recorded at 53,229,741 vedros, which was a per capita average of 0.33 vedros of 40° alcohol for the entire area of the monopoly, containing a population of 160,589,200. This ratio in 1913 was 0.66 vedros and in 1912, 0.62 vedros.

The ratio of alcoholic consumption per month to the annual aggregate consumption was 17.98 per cent for January, and approximately the same for the months following until July, when it fell to 8.55 per cent. On the outbreak of the War, the sale of intoxicating liquor fell to a minimum of 0.53 per cent in August, 0.19 per cent in September, 0.16 per cent in October, 0.18 per cent in November, and 0.29 per cent in December.

The financial results of the State sale of alcoholic liquor for 1914 and earlier years are as follows:

	1905	1912	1913	1914
		(in rubles per vedro)		
Gross receipts	8.17	8.54	8.53	8.56
Expenditure	2.26	2.05	2.08	2.78
Net profits	5.91	6.49	6.45	5.78

The total comparative results of the monopoly (the sale of methylated spirits excluded) can be expressed in the following figures:

Years	Gross Receipts	Expenditure (in rubles)	Net Profits
1905	612,487,889.61	169,234,878.54	443,253,011.07
1910	823,894,286.24	197,585,821.50	626,308,464.74
1913	892,848,011.13	217,698,430.01	675,149,581.12
1914	466,735,887.02	151,647,946.35	315,087,940.67

by Professor Friedman (*cf. supra*, p. 32 *sqq.*). The discrepancy between the two authorities is due to the different methods employed by them in determining the amount of the commercial profit.

The volume of business for 1914, as compared with the preceding year, showed a decrease of 426,112,124.11 rubles in gross receipts, of 66,050,533.66 rubles in general expenditure, and of 360,061,590.45 rubles in net profits.

Next in value to the sale of alcoholic liquor was the monopoly of the distillation and sale of methylated spirits for technical and general purposes.

The financial results of this monopoly during the three years 1912 to 1914 were as follows:

	1912 Rubles	1913 Rubles	1914 Rubles
Gross receipts	5,032,490.74	6,261,563.22	6,437,712.48
Expenditure	4,538,419.50	5,711,509.72	5,566,924.38
Net profits	494,071.24	550,053.50	870,788.10

The increase of gross receipts and net profits in 1914 is mainly due to the increase of the price of methylated spirits introduced from the beginning of that financial year.

b. *Taxation of Tobacco and Tobacco Products.*

The tax on tobacco did not form an important head of revenue before the War; it constituted only from 2½ to 4 per cent of the total tax revenue, and from 4 to 6 per cent of the aggregate receipts from indirect taxes. It did not exceed 42 copecks per head of population, which was far less than the rate in Austria (2 rubles 56 copecks), France (5 rubles 90 copecks), Italy (2 rubles 50 copecks), and Great Britain (3 rubles 59 copecks).⁴⁶

The taxation of tobacco, a source of revenue hardly utilized before the War, was resorted to very effectively after the beginning of hostilities. The Law of the 27th July 1914, enacting "various measures to increase the fiscal resources of the Government during the War," imposed a *supplementary excise* on all tobacco products, except those to which the cheapest banderole was applicable. This supplementary excise was fixed at 20 copecks per Russian pound or at 8 rubles per pud of tobacco. Tobacco of inferior quality (*mak-horka*) was taxed at 12 copecks per pound.

The Law of the 11th November 1914, passed in virtue of Clause

⁴⁶ E. Kuhn, *Finansovoe znachenie kosvennikh nalogov v nashei podatnoi sisteme* (*The Importance of Indirect Taxes in the Russian System of Taxation*), in *Vestnik Finansov*, 1916, No. 30.

87 of the Fundamental Laws, repealed this additional excise and substituted the following new rates:

Tobacco and snuff were taxed, according to the quality, from 50 copecks to 4 rubles per pound. (The old rates varied from 37 copecks to 2 rubles 50 copecks per pound.)

Excise on cigars ranged from 4 rubles 50 copecks to 16 rubles 80 copecks per thousand. (Old rates: 3 rubles to 11 rubles 20 copecks.)

Cigarettes were subject to an excise varying from 1 ruble 50 copecks to 6 rubles 50 copecks per thousand. (Old rates: 1 ruble 20 copecks to 3 rubles 60 copecks.)

Tobacco of inferior quality (*makhorka*), whether used for snuff or for smoking purposes, was taxed as high as 24 copecks per Russian pound (old rate as high as 9 copecks) and cigarettes made of this tobacco were subject to a tax of 1 ruble per thousand (instead of the former maximum of 70 copecks).

An increase of revenue of 60 million rubles was anticipated by the Ministry of Finance from the higher excise on tobacco. According to the returns of the State Audit Department, the effect of the Law of the 27th July 1914 was immediate, for the tobacco revenue during that year attained 92.8 million rubles or 14.1 million rubles more than in the preceding year (78.7 million rubles) and 11.4 million rubles more than had been estimated.

c. Taxation of Cigarette Tubes and Cut Cigarette Paper.

The Law of the 4th October 1914 doubled the excise under the above head, *i.e.*, every 100 cigarette tubes were taxed at 4 copecks instead of 2 copecks and every booklet of 100 leaves of cigarette paper at 1 copeck instead of $\frac{1}{2}$ copeck. An increase of revenue of 3.2 million rubles was expected from these new rates, which became operative on the 15th November 1914, and consequently exercised a certain influence upon this head of revenue even in 1914. During that year, the total receipts attained 5.2 million rubles or 410,000 rubles more than the revenue of 1913 (1.8 million rubles) and 430,000 rubles more than estimated.

d. Taxation of Sugar.

The War affected the fiscal organization of the Russian sugar industry in two different ways. The restrictions imposed on sugar

production in Russia, which have already been described, were based upon the excess of home production over home consumption. The principal object of the restrictions was to establish an approximate equilibrium between supply and demand. The War altogether defeated this object. Normal conditions in the sugar industry were completely upset. A great number of refineries were closed and the area under sugar-beet was considerably reduced. Production naturally decreased. It became evident that the restrictions on supply must be replaced by restrictions on consumption. Simultaneously with the decrease of the sugar supply and the rise of price, the entire reserves of the refineries, both the free reserves and those required to be maintained intact, were released for consumption at home. The regulations and restrictions affecting sugar production thus came to an end and restrictions on consumption were resorted to. An effort was made to control the latter by distributing with official sanction among the several areas the quantities of sugar that were available for local consumption.

A scarcity of sugar was also an immediate consequence of the suppression of the sale of alcoholic liquor, which intensified the demand for sugar, and also increased in a marked degree the purchasing power of the village population. The effects of this situation, by the beginning of the second year of the War, became very pronounced, and the idea was entertained of introducing a card system for the whole Empire. At this juncture also arose the problem of importing sugar from abroad, especially from Japan, for other countries were suffering from the same deficiency of sugar as Russia herself. The Law of the 19th October 1916, passed in virtue of Clause 87 of the Fundamental Laws, exempted from customs duty all sugar, up to 20 million puds, imported into Russia before the 1st September 1917. Imported sugar was subject, however, to the same excise duty as that levied on Russian sugar.

Immediately after the outbreak of the War, a serious problem arose in consequence of the Brussels Convention, which had been renewed in 1913 for a further period of five years, *i.e.*, until the 1st January 1918, and which had allowed Russia to export, in addition to her usual quota of sugar, an extraordinary supplement of 150,000 tons for the year 1911-1912 and 50,000 tons for each of the years 1912-1913 and 1913-1914.⁴⁷ With the outbreak of war the

⁴⁷ *Vestnik Finansov*, 1912, Nos. 13 and 14.

Convention became practically inoperative, as the output of all belligerent countries fell below the home demand. The Russian Ministry of Commerce and Industry convened a special conference to consider whether Russia might be regarded as released from the Convention and the International Bureau in Brussels as suspended, owing to the war conditions. The conference resolved that, though the repeal of the Convention was desirable, it ought to be effected only by diplomatic agreement among the signatory Powers, other than those which were at war with Russia. It appeared, however, on inquiry, that most countries considered it undesirable to denounce the Convention, and the Council of Ministers therefore decided to treat it as in operation until the 1st January 1918, the date appointed.⁴⁸

The taxation of sugar had been one of the principal sources of Russian revenue, next in importance to the revenues from alcoholic liquor and customs. The sugar excise was one of the first taxes to be increased after the outbreak of the War. The Law of the 26th October 1914, passed in virtue of Clause 87 of the Fundamental Laws, raised the excise duty from 1 ruble 75 copecks to 2 rubles per pud and the price of raw sugar for the refining season of 1914-1915 by 25 copecks. This increase was expected to yield from 1915 an increase of revenue of 24.5 million rubles per annum. The total receipts from sugar taxation in 1914 amounted, however, only to 139.5 million rubles, which was 9.6 million rubles less than in 1913 (149.1 million rubles) and 5.6 million rubles less than the amount estimated.

e. Revenue from Mineral Oils.

The Law of the 26th October 1914, which raised the excise on petroleum from 60 copecks to 90 copecks was expected to yield an annual increase of 25 million rubles. As all stocks destined for sale at the time of the passing of the Act were made subject to the increased duty, the effect of the new rates was immediately felt. The total receipts under this head in 1914 amounted to 54.9 million rubles, an increase of 6.3 million rubles over the receipts of 1913 (48.5 million rubles) and of 5.3 million rubles over the estimates.

⁴⁸ *Torgovo-Promishlennaya Gazeta (Journal of Commerce and Industry)*, 1914, Nos. 206 and 212.

f. Revenue from Matches.

The Law of the 4th October 1914 raised considerably the excise on matches. Matches of Russian manufacture were taxed at double the former rate: boxes containing less than 75 matches were taxed at 1 copeck instead of $\frac{1}{2}$ copeck; those containing from 75 to 150 matches at 2 copecks instead of 1 copeck; those containing from 150 to 225 matches at 3 copecks instead of $1\frac{1}{2}$ copecks. In order to prevent an undue rise in prices, the excise on imported matches was not doubled but increased by only 50 per cent. These new rates were expected to yield an increase of 20.2 million rubles. The total receipts under this head amounted in 1914 to 23.6 million rubles, which was an increase of 3.6 million rubles over the 1913 revenue (20 million rubles) and of 3.4 million rubles over the estimates. This increase was undoubtedly due to the fact that the new rates introduced became operative at once and were applied to existing stocks.

g. Customs Revenue.

The War exerted a twofold effect on the customs revenue. Owing to the practical cessation of exports and imports across almost the entire western frontier of Russia, foreign commerce decreased very substantially and correspondingly reduced the customs receipts. The character of these receipts was likewise altered. While in peace-time almost the entire amount of the import duties had been drawn from private sources, a great part of this revenue (almost 25 per cent) was, from the outbreak of war, paid by the Treasury itself or by public institutions on their imports for national defense. Such payments, in so far as the budget was concerned, were merely nominal receipts, for they increased the figures without changing the ratio between the State revenue and expenditure. The decrease in the yield of customs duties was very marked after the outbreak of war. During the first six months of 1914, the customs receipts exceeded those of the corresponding period of 1913 by 36.9 million rubles. In the second half of the year they fell so abruptly that the total revenue of the year dropped to 303.8 million rubles or 49 million rubles below that of 1913 (352.9 million rubles), and fell short by 66.6 million rubles of the figure of the estimates. This decrease occurred entirely during the second half of the year and was due to the reduction in the imports at the European frontier.

The greatest decrease (above one million rubles) occurred in the customs receipts under the following heads:

	<i>Decrease</i> (thousands of rubles)
Machinery	11,137
Cotton	5,073
Fish	4,623
Wool	3,995
Vegetables, fruit, etc.	3,474
Pit coal and coke	3,395
Wine	2,487
Hides	1,952
Iron and steel goods	1,797
Woolen stuffs	1,642
Coffee	1,524
Jute	1,352
Mathematical and laboratory instruments	1,338
Chemicals and drugs	1,287
Rice	1,095

iv. *Royalties.*

Except the State Monopoly of Spirits, which has already been dealt with in the group of indirect taxes, none of the State royalties was greatly altered during 1914.

Statistics published by the State Audit Department show that during 1914 the *national mines* produced 790,100 rubles of revenue or 121,600 rubles more than in the preceding year (668,500 rubles) and 440,100 rubles more than had been estimated. *The Mint* yielded a revenue of 14.6 million rubles or 9.5 million rubles more than the amount for 1913 (5.1 million rubles) and 7.3 million rubles more than the estimate. This surplus was due partly to the increase in 1914 of the coinage of silver and partly to the receipt in that year of 3.1 million rubles from the coinage of 1913. *The postal revenue* produced 80.6 million rubles or 1.5 million rubles more than the revenue of 1913 (79 million rubles) and 1.9 million rubles less than the estimate. *The telegraph and telephone revenues* attained 46.9 million rubles or an increase of 6.1 million rubles over the revenue of the preceding year (40.7 million rubles) and 2.9 million rubles more than the estimate. The increase obtained from this source of revenue was due to the introduction of higher postal and telegraph rates (by decision of the Minister of the Interior, the 21st September 1915) and to the imposition of a specific levy, non-recurrent, of

10 rubles per telephone (sanctioned by the Emperor on the 6th September 1914).

v. *State Property and Funds.*

The declaration of war did not have the same effect upon the various sources of revenue included in this division. Forests and State railways suffered relatively far more than the others.

a. *Revenue from Forests.*

Until the month of July 1914, the monthly receipts from forests regularly exceeded the receipts for the corresponding periods of 1913. At that date, however, there was an abrupt change. During the period of mobilization, which disorganized transport and withdrew the greater part of the forestry employees from their normal occupations, the receipts fell off in comparison with the corresponding receipts of 1913, during July by 22 per cent, August by 41.2 per cent, and September by 37.4 per cent. But even after mobilization was completed and the economic life of the country had begun to adapt itself to the new war-time conditions, the revenue from forests continued to decrease. The decline was greatest in the provinces within the area of hostilities. The Financial Statement records a decrease in the revenue from forests amounting to 70 per cent (as compared with 1913) in the provinces of Vilna, Kovno, Grodno, and Russian Poland; while in those of Vitebsk, Smolensk, Minsk, Volhynia, and in the Baltic provinces, the decrease was estimated at 30 per cent. The complete disorganization of the industry in the above districts naturally had a direct influence on the total receipts, which amounted in 1914 to 78 million rubles or 25.1 million rubles less than the estimate.

b. *State Railways, Government Works, Funds Owned by the State, etc.*

The effect of the War on the financial situation of the State railways was twofold. In the first place, commercial transport in the area of hostilities decreased to one-third of its pre-war value, and in the remaining districts to three-fourths.⁴⁹ This decrease was in part compensated by the increase in military transport. But since the tariff for the transport of military consignments was 50 per cent less than the ordinary commercial rates, there necessarily re-

⁴⁹ *Financial Statement for 1915* (French edition), p. 76.

maintained a deficit. The full cost of military transport was, moreover, charged to the war fund, so that the Treasury derived no profit from it at all. There was merely a corresponding increase of war expenditure and in so far as the budget was concerned, a simple transfer of figures from one item to another. In the first six months of 1914, the receipts of the State railways exceeded by 8 per cent those of 1913 during the corresponding period (418.5 million rubles as against 387.3 million rubles). But the second half of the year showed a very heavy loss.

The following table gives a summary of the comparative results of the two years:⁵⁰

	1913	1914
	(in versts)	
Total length of State lines	43,100	43,884
	(in millions of passenger-versts)	
Total traffic of passengers	21,117	27,778
	(millions of pud-versts)	
Total transport of luggage and goods	2,728,964	2,641,969
<i>Total receipts</i>	(thousands of rubles)	
According to the tariff's	825,801	767,731
Actual receipts	813,384	733,291
Estimated receipts	781,944	858,000
	(in rubles)	
Receipts per verst	18,872	16,710
<i>Total expenditure</i>	(thousands of rubles)	
Working expenditure	499,041	557,175
	(in rubles)	
Per verst	11,579	12,697
	(thousands of rubles)	
Extension and improvement of the lines	87,382	95,552

It thus appears that the actual receipts in 1914 attained the figure of 733.3 million rubles or 80.1 million rubles less than in the preceding year (813.4 million rubles) and 125.2 million rubles less than the estimate.

Among the other heads of revenue from State Property and Funds, *Government factories, works, and depots* yielded a revenue of 26.5 million rubles or 458,000 rubles more than in the preceding

⁵⁰ *Financial Statement* for 1915 (French edition), p. 76.

year (26 million rubles) and 239,000 rubles more than the estimate. *Funds owned by the State and banking operations* yielded 53 million rubles or an increase of 9 million over the preceding year (44 million rubles) and 4 million rubles more than the estimate. This increase consisted chiefly of receipts from securities owned by the State, of interest from Treasury bonds held by the Treasury, and of the commercial profits of the State Bank and the Foreign Department of the Credit Office. The interest from funds deposited with foreign bankers showed, on the other hand, a decrease. *The participation by the State in the profits of privately owned railways* attained in 1914 35.3 million rubles or 8.7 million rubles more than in the preceding year (26.5 million rubles) and 504,000 rubles more than the estimate. This increase was due to the very efficient administration of the following companies: North-Donetz, Moscow-Vindaw-Rybinsk, Moscow-Kiev-Voronezh, South-Eastern, Vladikavkas, and Moscow-Kazan. *The sale of real property* brought an income exceeding 1 million rubles or 1.7 million rubles less than in 1913 (2.8 million rubles) and 851,000 rubles less than the estimate. *The redemption payments not abolished by the Imperial Manifesto of the 3rd November 1905* yielded a total of 1.9 million rubles or an increase of 736,000 rubles over 1913 (1.1 million rubles) and 985,000 rubles more than the estimate. *Obligatory payments of railway companies* totalled 18.2 million rubles which was 2.3 million rubles less than in 1913 (20.5 million rubles) and an equal amount less than the estimate. *Reimbursements to the State of former advances and other expenditure* yielded 50.1 million rubles which was 4.7 million rubles more than in 1913 (45.4 million rubles) but 2.9 million rubles less than the estimate. *Subventions to the Treasury from various sources* produced 30.3 million rubles, a decrease of 4.4 million rubles as compared with the figures for 1913 (34.7 million rubles) and 4.1 million rubles less than the estimate. *War compensation*⁵¹ *payments* produced 8.7 million rubles or 7.1 million rubles less than in 1913 (16.8 million rubles) and 1.4 million rubles less than the estimate. *Sundry minor and incidental receipts* yielded 25 million rubles, which was an increase of 8.8 million rubles over 1913 (16.2 million rubles), and 9.7 million rubles more than the estimate.

⁵¹ Boxer indemnity paid by China and the indemnity paid by Turkey in the fulfilment of her obligations resulting from the Russo-Turkish War of 1877.

This description of the ordinary public revenue in 1914 should be supplemented by an analysis, however short, of the extraordinary revenue, which consisted chiefly of the proceeds of loans issued by the Treasury for the purpose of meeting the war expenditure.

SECTION 3. EXTRAORDINARY REVENUE.

The Finance Act of 1914 provided for 13.4 million rubles of extraordinary revenue, composed of 1.4 million rubles of permanent deposits in the State Bank and of 12 million rubles of reimbursements from the Imperial Supply Fund of advances that had been made by the Treasury for purchase of foodstuffs and for the supply of seed to the population. The actual receipts were, however, as follows: permanent deposits in the State Bank amounted to 1.7 million rubles or 224,000 rubles in excess of the sum of the preceding year (1.5 million rubles) and 359,000 rubles in excess of the estimate. Reimbursements from the Imperial Supply Fund of advances made by the Treasury attained the sum of 5.4 million rubles, which was 3.1 million rubles less than in the preceding year (8.5 million rubles) and 6.5 million rubles less than the estimate. The chief source of extraordinary revenue consisted in the loans contracted by the Treasury for financing the War. As the details of these transactions are analyzed in another monograph of this volume, it will be sufficient here to give a brief statement of their financial results. The short-term Treasury Bills issued in accordance with the Proceedings of the Finance Committee of the 23rd July 1914, which received Imperial sanction, and the Imperial Ukase of the 6th October 1914, yielded 886.7 million rubles, of which 802.7 million rubles were derived from the discount of bonds issued in Russian currency and 84 million rubles from bonds issued in foreign currency. The 5 per cent Domestic Loan of 1914 issued in virtue of the Imperial Ukase of the 3rd October 1914 yielded 441.7 million rubles. The 4 per cent Treasury Bonds issued in virtue of the Imperial Ukase of the 22nd August 1914 yielded 266.8 million rubles.

SECTION 4. PUBLIC EXPENDITURE IN 1914.

i. *Ordinary Expenditure in 1914.*

The total of the appropriations for 1914 amounted to 3,309,523,517 rubles. In addition to this, there were various supplemen-

tary credits granted by various acts and resolutions, amounting to 47,184,323 rubles, which made an aggregate of 3,356,707,840 rubles. After deducting a sum of 497,902 rubles which was subsequently transferred to extraordinary expenditure, the sum of 3,356,209,938 rubles remains as the grand total of ordinary expenditure for the year.

The ordinary expenditure may be divided as follows:

<i>Actually disbursed</i>	(in rubles)	
(a) In the financial year 1914	2,541,910,158	
(b) In the supplementary period ⁵²	84,320,277	
	<hr/>	2,626,230,435
<i>Remaining to be disbursed</i>		
(a) On the personal account of creditors of the Treasury	62,053,507	
(b) On account of credits extended after their expiration	238,815,292	
	<hr/>	300,868,799
Total		<hr/> 2,927,099,254

Credits to the amount of the difference between the voted and the actual expenditure, *i.e.*, 429,110,704 rubles, were cancelled.

In order to increase the resources of the Treasury, the Law of the 27th June 1914 empowered the Council of Ministers to reduce the credits granted in the current budget as well as those outstanding from preceding years. In pursuance of this law, the Council of Ministers on the 10th September and the 15th October 1914, and on the 10th February, the 8th March, and the 10th July 1915, reduced the credits for 1914 by 182.3 million rubles, including 16.5 million rubles of conditional credits and 3.8 million rubles of supplementary credits. The estimates of the Ministries of War and Marine were also cut down by 185 million rubles because, under the regulations relating to the demanding, allowing, and granting of

⁵² If a credit included in the budget is not used in the course of the financial year it becomes *ipso facto* cancelled. To this rule, however, there is an exception, the so-called *supplementary period* (*lgotni srok*), an extension of time during which the credit continues to be available, although the financial year is over.

the sums required by the Ministry of War to meet war expenditure, these sums were charged to the war fund.

The principal changes in the various items of expenditure for 1914, as compared with 1913, are as follows:

	<i>1914</i>	<i>1913</i>	<i>Difference</i>
	(millions of rubles)		
Ministries of War and Marine	641.5	825.9	—184.4
Working expenses of State railways	652.8	586.9	+ 65.9
Service of loans	365.8	424.4	— 58.6
State Monopoly of Spirits	208.4	235.0	— 26.6
All other expenditure	1,058.6	1,022.0	+ 36.6
	<hr/>	<hr/>	<hr/>
Total	2,927.1	3,094.2	—167.1

The largest decrease in expenditure appeared under the head of the Ministries of War and Marine. According to the figures published by the State Audit Department, this reduction amounted to 184.4 million rubles. This decrease, however, was purely fictitious, because all expenditure necessitated by the War was authorized in accordance with the rules above referred to. These rules provided that if the War was of long duration, the supply voted in time of peace to maintain the army, the navy, the corps of frontier guards, and the military administration on a peace footing should be entered in the usual manner in the ordinary expenditure. But when these sums were actually disbursed, the votes were cancelled and all expenditure necessary for the conduct of the War was charged to the account of the war fund. A curious discrepancy therefore arose. While the budget estimates invariably included in the ordinary expenditure the credits necessary for the maintenance of the army, the navy, and the corps of frontier guards on their peace footing, it became necessary at a subsequent date to transfer these credits from the ordinary expenditure to the war fund account, where the expenditure for the upkeep of the mobilized army and fleet appeared. The budgets and the State accounts thus waged a war of their own. The budget persisted in including in the ordinary expenditure the peace-time credits for the army and navy, and the State accounts transferred them persistently to the extraordinary expenditure due to the War. This difference between budget and accounts amounted for the war period of 1914 to 185.1 million

rubles, but later, in 1915 and 1916, it exceeded 500 million rubles per annum.

This artificial method of preparing the army and navy estimates was due to the desire of having a separate account in the war fund of all expenditure actually incurred as a consequence of the War. It would certainly have been more correct to exclude all military and naval expenditure from the ordinary budget, and to transfer it altogether to the account of the war fund.

ii. *Extraordinary Expenditure in 1914.*

Extraordinary expenditure in 1914 was originally authorized to the amount of 304 million rubles and a supplementary amount of 77.6 million rubles was subsequently added. In virtue of a Law of the 27th July 1914,⁵³ a credit of 105.7 million rubles was, however, cancelled, which reduced the total extraordinary expenditure to 276.4 million rubles. But in its official reports the State Audit Department included in the extraordinary expenditure the expenditure due to the War, which amounted in 1914 to 2,545 million rubles.

SECTION 5. FINANCIAL STATEMENT FOR 1914.

The following table gives the figures of the 1914 budget (as carried out) together with the expenditure caused by the War, and the proceeds of loans, according to the reports of the State Audit Department:

	(millions of rubles)
<i>Revenue</i>	
Ordinary	2,898.1
Extraordinary (loans excluded)	8.3
Proceeds of loans	1,595.3
Carried forward from preceding years	54.4
Total	4,556.1
<i>Expenditure</i>	
Ordinary	2,927.1
Extraordinary (war expenditure excluded)	276.4
Expenditure caused by the War	2,540.0
Total	5,743.5

⁵³ This law empowered the Council of Ministers to cancel credits granted in the budgets of 1914 and of preceding years.

According to these figures, the total expenditure exceeded the total revenue by 1,187.4 million rubles. The Treasury was able to meet part of this excess out of its free balance, namely, 514.2 million rubles, which left an uncovered deficit of 673.2 million rubles. In addition to this sum the State Audit Department, when establishing the free Treasury balance at the beginning of 1915, recorded an excess of expenditure over revenue of 632.9 million rubles, thus bringing the total deficit for 1914 to 1,306.1 million rubles.

This figure in the accounts of the State Audit Department is contested, however, by one of the greatest experts on Russian finance, M. Dementiev.⁵⁴ "While the official figures of the total revenue are not disputed," writes M. Dementiev, "it is necessary to point out that the figures of the war expenditure (2,540 million rubles) include 884.6 million rubles which were charged but not actually disbursed. According to the minutes of the Proceedings of the Council of Ministers of the 13th January 1915, as sanctioned by the Emperor, the unexpended amount was withdrawn from the credits for 1914 and transferred to those for 1915. The war expenditure for 1914 was thus reduced to 1,655.4 million rubles." M. Dementiev further observes that "the sum of 539.6 million rubles spent on the mobilization of the army and navy, and not reimbursed on the 1st of January 1915 from the war fund, ought to be deducted from the excess of expenditure over revenue of 632.9 million rubles in the Treasury accounts. Disbursements for mobilization may be authorized out of the free balance of the Treasury, owing to the rapidity with which they have to be made and to the impossibility of having recourse to the ordinary procedure. But they must be charged to the war fund at a subsequent date and recredited to the free balance account; otherwise they would appear twice. The State Audit Department should have followed this procedure when establishing the free balance of the Treasury for 1915, and not have considered these disbursements non-repayable expenditure. They were, in fact, charged to the war fund during the following year, and their amount was added, as prescribed by law, to the Treasury receipts."

The present writer entirely agrees with the corrections made by M. Dementiev; after deduction of these two sums, 884.6 million rubles from the war expenditure and 539.6 million rubles from the

⁵⁴ G. Dementiev, *op. cit.*, in *Vestnik Finansov*, 1917, Nos. 36, 37, 39, and 41.

Treasury's disbursements, or a total sum of 1,424.2 million rubles, the free balance of the Treasury on the 1st January 1915 should amount to 118.1 million rubles instead of the deficit of 1,306.1 million rubles shown by the State Audit Department.

The financial results of the year 1914 have been dealt with in considerable detail, because the effect of the War on the national economy was greatest in the first year of hostilities. It has been pointed out that the abolition of the State Monopoly of Spirits created an immediate and very serious deficit in the budget, and that this deficit was further very substantially increased by the direct effect of the War on the Treasury receipts. Almost all items of public income showed a considerable decrease as a consequence of the enemy occupation of Russian territory and of the influence of the War on the most important sources of the national revenue.

The War, on the other hand, caused an enormous development of public expenditure. The universal increase in existing taxes, enacted after the outbreak of war, could not produce its full effect in 1914. It will appear later how important a factor it proved in the succeeding years, 1915 and 1916. The deficit in the budget of 1914 had meanwhile to be met by advances from the free balance of the Treasury, but principally by the issue of public loans. The latter were employed to meet not only the war expenditure but also a great part of the ordinary expenditure.

CHAPTER III

REVENUE AND EXPENDITURE IN 1915

DURING 1915 and 1916, the development of Russia's national economy was entirely governed by the War. After the first shock, the economic life of the country began to adapt itself rapidly to the new conditions. The chief feature of the new order was the application of the greater part of the country's economic forces to the one object of national defense. As a consequence of the state of war, the Treasury, represented by the Supply Service of the War Office, became the principal buyer of commodities in the home-market, the chief importer of foreign goods, and the most important client of the transport service. This condition clearly reflected itself in both public revenue and expenditure.

SECTION 1. THE BUDGET OF 1915 (as carried out).

i. *Ordinary Revenue in 1915.*

The report on the execution of the Finance Act of 1914 was the last official document issued by the State Audit Department. The disorganization of administration in the central Treasury, in the local treasuries, and in the audit offices, led to neglect in bookkeeping and to delay in the publication of the accounts. Owing to conscription, all these offices were deprived of the greater part of their staff and the remaining personnel was unable to cope with the enlarged and complicated transactions of the war budgets. The Revolution, which began in February 1917, added to the difficulty of their task, while the Bolshevik *coup d'état* completely arrested all further efforts. In the absence of the reports of the State Audit Department, the survey for the years 1915 and 1916 must be based upon the accounts sent to the Ministry of Finance by its subordinate officials. These accounts give a general picture of the execution of the Finance Acts of 1915 and 1916, though they are much less accurate than the former reports of the Audit Department.

The most striking feature of the budget for 1915 is the discrepancy between the estimated revenue and the revenue actually received. In contrast to peace-time, when receipts always exceeded

the estimated revenue, the receipts in 1915 were very much less than the estimates. The table below gives the comparative figures of estimated revenue and actual receipts:

Ordinary Revenue in 1915.

	<i>Estimated Revenue</i>	<i>Revenue Received</i>
	(millions of rubles)	
Direct taxes	374.6	359.8
Indirect taxes	699.1	697.4
Duties	513.9	413.9
Royalties	326.2	208.3
State property and funds	1,070.8	978.7
Other revenue	147.5	169.5
	<hr/>	<hr/>
Total	3,132.1	2,827.6

The difference between the figures of the estimates and those of the actual receipts was 305 million rubles. The Minister of Finance, M. Bark, in a speech delivered in the Duma on the 16th February 1916¹ attributed the deficit to the following causes. He considered that about half of the deficit or 150 million rubles was due to the loss of revenue from alcoholic liquor, which had been decreased by restrictions placed on the sale of liquor during 1915. A loss of 90 million rubles was, in his opinion, the result of the enemy occupation of further areas of Russian territory. The remaining loss of 82 million rubles was due to the fact that "the War, contrary to official expectations, had lasted throughout the year 1915. It had consequently prevented the gradual resumption of normal conditions in the national economy during the second half of the year, which had been expected when the estimates for 1915 were being drafted." As will be gathered from this remark, it had been anticipated that the War would come to an end by the middle of 1915, and that the second half of the year would see a gradual return to peace conditions. Such, at least, must have been the opinion of the authors of the estimates.

In order to ascertain the changes in 1915 in various items of the revenue, the comparative figures for the years 1913, 1914, and 1915 are given in the following table:

¹ Debates of the Duma, verbatim report, session of 1916, pp. 1734 *sqq.*

<i>Ordinary Revenue</i>	1913	1914	1915	<i>Difference</i>
				<i>between</i> <i>1914 and 1915</i> (millions of rubles)
Duties on passenger rates and freight traffic	30.8	31.4	224.8	+ 193.4
State railways	813.6	733.3	783.2	+ 49.0
Sugar revenue	149.1	139.5	186.1	+ 46.6
Revenue from the tax on commerce and industry	150.1	166.3	212.0	+ 45.7
Land taxes and duties	87.2	77.2	104.8	+ 27.6
Revenue from tobacco	78.7	92.8	114.2	+ 21.4
Stamp duty, court fees	111.8	105.2	125.6	+ 20.4
Customs duty	352.9	303.9	283.4	— 20.5
State Monopoly of Spirits	899.2	503.9	30.7	— 473.2
All other receipts	743.9	744.6	762.9	+ 18.3
Total	3,417.3	2,898.1	2,827.7	— 70.4

It is thus evident that the two items of revenue which decreased the most as compared with 1914 were the State Monopoly of Spirits and the customs revenue. Owing to the complete suppression of the State sale of vodka, the revenue from the Spirits Monopoly, which had amounted to 503.9 million rubles in 1914 and 899 million rubles in 1913, dropped, in 1915, to the small sum of 30.7 million rubles. The customs revenue decreased, owing to the further curtailment of foreign trade, by 20.5 million rubles as compared with 1914, and by 59.5 million rubles as compared with 1913.

A series of other items, on the other hand, showed a marked increase, attributable, as explained in a former chapter, chiefly to the raising of the taxes in 1914. The total increase of revenue, due to these measures, amounted in 1915 to 423.3 million rubles. This, however, was inadequate either to defray the war expenditure, or to cover the loss sustained by the Treasury from the suppression of the State Monopoly of Spirits, which amounted for the single year 1915 to 473.2 million rubles. The loss resulting to the Treasury under this head as compared with the figures of 1913 was even larger, and well-nigh irremediable.² In spite of this above-mentioned increase, due to higher taxation, the total revenue for 1915 (2,827.7

² 899.3 million rubles received for 1913, less 30.7 million rubles received in 1915, makes the total loss of the Treasury for two years equal to 868 million rubles.

million rubles) was therefore much smaller than that of 1913 (3,417 million rubles); and the deficit thus caused by prohibition and the general war condition remained uncovered during that year.

ii. *Extraordinary Revenue in 1915.*

The revenue actually received under this head in 1915 amounted to 8,339 million rubles, including 8,142.6 million rubles realized from loans, and 196.4 million rubles from sundry other extraordinary receipts. Without entering into the details of the loan transactions, it should be noted that the total receipts from these were distributed as follows:

<i>Receipts</i>	(millions of rubles)
Domestic loans	2,878.6
Foreign loans	2,088.0
Discount of short-term Treasury bills	3,176.0
Total	<hr/> 8,142.6

In addition to the proceeds of loans, the Treasury received 196.4 million rubles of extraordinary receipts, consisting of 48.9 million rubles from stamps issued to supplement the inadequate supply of token coins, and 145.8 million rubles from the profit on the sale of foreign currency. The proceeds of the latter transaction, however, may be described as profits only in the very narrow and rather artificial meaning of the term. They arose from the fact that all sums derived from foreign loans were recorded in rubles at par value, while foreign currency required by private persons and enterprises to cover their payments abroad was sold to them at the rate of exchange of the day. The difference was considered by the Treasury as an extraordinary receipt, but it might as easily have been entered under the head of receipts from loans, if the loans had been converted at the rate of exchange prevailing on the day of the transaction. This, however, was not done, for the Russian National Debt was always reckoned at par until redeemed, thus establishing a difference between the rate of exchange recognized by the Ministry of Finance in the negotiation of loans and in the sale of foreign currency to private individuals.

iii. *Ordinary Expenditure in 1915.*

The table below shows the important changes in the ordinary expenditure of 1915, as compared with that of 1913 and 1914:

<i>Ordinary Expenditure</i>	<i>1913</i>	<i>1914</i>	<i>1915</i>	<i>Difference between 1914 and 1915</i>
		<i>(millions of rubles)</i>		
War and Naval Departments and				
Corps of Frontier Guards	825.9	644.3	318.9	—326.4
State Monopoly of Spirits	234.9	208.4	77.4	—131.0
Service of loans	424.3	365.8	516.6	+150.8
All other expenditure	1,609.1	1,708.6	1,729.8	+ 21.2
	<hr/>	<hr/>	<hr/>	<hr/>
Total	3,094.2	2,927.1	2,642.7	—284.4

This comparison indicates that the greatest decrease in expenditure occurred under the heads of the army and navy, but we have already explained the fictitious character of this decrease, due to the transfer of this class of expenditure from the ordinary expenditure to the war fund. The fact that in 1914 185.1 million rubles were so transferred, and that in 1915 the amount transferred rose to 510 million rubles, explains the reduction in the latter year of 325.4 million rubles in the ordinary expenditure, as compared with the figures of 1914.

An important reduction of expenditure was also effected under the head of the State Monopoly of Spirits owing to the discontinuance of the distillation of vodka; the decrease amounted to 131.1 million rubles as compared with the figures of 1914 and to 157.5 million rubles as compared with those of 1913.

Expenditure under the head of service of the National Debt, showed, on the contrary, a very substantial increase, as a consequence of the steady growth of the National Debt. The Debt amounted on the 31st December 1913 to 8,800 million rubles; increased to 10,400 million rubles by the 31st December 1914; and attained 18,800 million rubles by the 31st December 1915.³ This increase carried with it a corresponding increase in the charge for the service of interest and sinking fund on the national obligations.

³ *Financial Statement for 1917* (French edition), Part I, p. 112.

iv. *Extraordinary Expenditure in 1915, Including War Expenditure.*

Independently of the expenditure necessitated in 1915 by the War, this section of the budget included 193.9 million rubles of other extraordinary expenditure, of which sum 76.8 million rubles was expended on the construction of railways, 8.9 million rubles on the establishment and maintenance of ports, 89.1 million rubles on strategic and economic services of the War Department, and 14.8 million rubles on measures against epidemic diseases.⁴

It is more difficult to ascertain the exact amount of the war expenditure in 1915. This difficulty is due to the fact that the sums disbursed for the purposes of the War could never be even approximately estimated. All estimates were as a rule exceeded. It was believed in August 1914, both in official circles and by the public, that the War would last for two or three months at most. This estimate was subsequently extended to twelve months. The Financial Statement for 1915 was drawn up on the supposition that "only the second half of 1914 and the first half of 1915 would be subject to war conditions."⁵ M. Bark, the Minister of Finance, even went so far, at a later date, as to attribute part of the difference between the actual receipts and the estimates to the fact that the War had lasted throughout 1915 and had not ended by the middle of that year, as had been officially expected. On the contrary, the War continued to expand on an unprecedented scale, drawing in fresh countries and making deeper drafts on the resources of each. The price of commodities began to rise from the first days of the War and the process continued unremittingly during the entire period of hostilities. The cost of the War, which passed all imagination, went on steadily growing.

The actual war expenditure exceeded even expert prediction and proved far more destructive to the national economy than could possibly have been foreseen. The State Controller, M. Kharitonov,

⁴ These figures are taken from the articles of M. Dementiev quoted above. They do not correspond with those of the preliminary reports on the execution of the budget of 1915 as they appear in the Financial Statement for 1917. In the latter the extraordinary expenditure is shown at 198.5 million rubles; but as the figures of M. Dementiev were established at a later date, we accept them as more correct.

⁵ *Financial Statement for 1915*, Part I, pp. 41-42.

submitted to the Duma, on the 28th January 1915, the following summary of the facts relating to war finance: "From the beginning of hostilities down to the 1st January 1915, the total war credits, including the cost of mobilization, amounted to 3,020 million rubles, while the actual expenditure during this period amounted to 2,243 million rubles. The current daily expenditure must be estimated at 14 million rubles, one-tenth of which only, 1.4 million rubles, is covered by credits under the head of the ordinary expenditure of the military and naval departments."⁶

The above figure of daily expenditure, however, requires correction, for it includes the cost of mobilization, which was not a permanent expenditure, but M. Kharitonov does not give the exact figure of this item which would enable one to make the necessary adjustment. In the session of the Duma of the 19th July 1915, the Minister of Finance, M. Bark, made the following statement: "The total credits granted from the outbreak of the War down to the 15th July 1915 amount to 6,971 million rubles, while the actual expenditure down to the 1st July 1915 amounts to 5,456 million rubles. The average daily expenditure is 15.7 million rubles, but will have to be reckoned in the future at 19 million rubles. Our allies and our enemies, like ourselves, are exposed to constantly increasing calls on their treasuries. These are due to the steady growth of the armies and to the expenditure required to create and maintain adequate means of national defense. In these circumstances, our war expenditure from July to the end of the current year (1915) should be estimated at 4,066 million rubles. The total war expenditure for 1915 will thus reach 7,242 million rubles, or with the addition of the earlier expenditure over 9,000 million rubles." On the 4th August 1915, the Minister of Finance informed the Budget and Finance Committees that, down to the 1st August 1915, the war expenditure had totalled 6,043.4 million rubles. The Financial Statement for 1916 gives the following figures of war expenditure down to the end of 1915: cost of mobilization, 458 million rubles, war expenditure during 1914, 1,646 million rubles; from January to the 1st October 1915, 5,606 million rubles and for the rest of the year, 2,000 million rubles. If the War lasts during the whole year 1916, an expenditure of about 8,000 million rubles must be provided for.⁷

⁶ S. Prokopovich, *op. cit.*, p. 178.

⁷ *Financial Statement for 1916*, Part I, pp. 8, 10, 19-20, 128, and 132.

The Minister of Finance reported in the Duma, on the 16th February 1916, that from the outbreak of hostilities, the total war expenditure amounted approximately to 10,588 million rubles, of which 1,657 million rubles had been spent in 1914. For the entire year 1915, the war expenditure was estimated at 8,931 million rubles. In spite of the vastness of these figures, war expenditure was steadily increasing. Whereas in the early days of the War the daily expenditure had amounted only to 8 million rubles, it had reached 31 million rubles by the end of 1915. On the basis of this experience, it was necessary to estimate the expenditure required during 1916 at not less than 12,000 million rubles. Figures published subsequently in the Financial Statement for 1917 give the sum of 8,815.4 million rubles as the war expenditure of 1915.⁸ M. Dementiev⁹ reckons the cost of mobilization at 539.6 million rubles, the war expenditure during 1914 at 1,655.4 million rubles, and that of 1915 at 8,818 million rubles.

Combining all this information, M. Prokopovich compiled the following statement of expenditure for the years 1914 and 1915:¹⁰

	<i>M. Bark on the 19th July 1915</i>	<i>Financial Statement for 1916</i>	<i>M. Bark on the 16th Febru- ary 1916</i>	<i>Financial Statement for 1917</i>	<i>M. Dementiev September- October 1917</i>
			(millions of rubles)		
Mobilization		458	458		539.6
19th July to 31st De- cember 1914	2,280	1,646	1,657	1,657.4	1,655.4
1st January to 1st July 1915	3,176	5,606	3,341		3,144.2
1st July to 1st Octo- ber 1915				8,815.4	
1st October to 31st December 1915	4,066	2,000	5,132		5,134.6
Total	9,522	9,710	10,588	10,472.8	10,473.8

As will be seen from this table, there is no uniformity in the accounts of war expenditure and, as a rule, the later the accounts are compiled, the larger is their total. This is to be explained by the

⁸ *Financial Statement for 1917*, Part I, p. 10.

⁹ Dementiev, *op. cit.*

¹⁰ S. Prokopovich, *op. cit.*, p. 79.

fact above referred to, that there was invariably an excess of actual expenditure over the estimates.

v. *Summary of the Budget for 1915 (as carried out).*

If all the foregoing figures are combined in one table, we obtain the following summary of the budget of 1915, as carried out.

<i>Revenue</i>	(millions of rubles)
Ordinary	2,827.7
Extraordinary (loans excluded)	196.4
Proceeds of loans	8,142.6
	<hr/>
Total	11,166.7
Carried forward from previous years	36.2
	<hr/>
Grand Total	11,202.9
 <i>Expenditure</i>	
Ordinary	2,642.7
Extraordinary (war expenditure excluded)	193.9
War Expenditure	8,818.4
	<hr/>
Total	11,655.0
Expenses relating to the rediscount of short-term Treasury bills maturing in 1916 (payment of interest)	48.1 ¹¹
	<hr/>
Grand Total	11,703.1

The expenditure including the payment of interest on rediscounted Treasury bills exceeded the revenue in 1915 by 500.2 million rubles. If the free balance of the Treasury, amounting at the beginning of 1915 to 118.1 million rubles is deducted, the deficit at the beginning of 1916 equals 382.1 million rubles.

¹¹ The rediscount of Treasury bills was effected in the following manner: when these bills matured the State Bank debited the current account of the Treasury with their full nominal value and credited simultaneously the same bills for the new period minus the interest which was due in advance. According to the agreement existing between the Ministry of Finance and the State Audit Department these transactions were included under the head of extraordinary expenditure and their cost was the difference between the credit and the debit. In fact this rediscount is simply a payment of interest on loans and it would have been more appropriate to place it in the ordinary expenditure under that head.

SECTION 2. FISCAL MEASURES ADOPTED IN 1915.

In contrast to 1914, when existing taxes were generally increased, and several new taxes were introduced, no important changes in taxation were enacted during 1915. In fact, the various measures that had been adopted in 1914 produced their full effect only in 1915, but as they were insufficient to cover the deficit due to the suppression of the State Monopoly of Spirits, further fiscal reforms became a matter of extreme urgency. The urgency was the greater because the changes introduced in 1914 had been hurriedly enacted under Clause 87 of the Fundamental Laws, and were of a provisional character, a fact very candidly admitted by the Minister of Finance himself. The elaboration of a financial program for meeting the war expenditure therefore called for immediate attention, and the legislature, especially the Duma, national opinion, and the public press, were agreed in demanding from the Government the adoption of carefully considered measures.

The Budget Committee of the Duma, when discussing the enactments of 1914, had remarked that, in the circumstances under which they were passed, the new taxes could not possibly constitute an improvement on the existing system. Though all the proposed fiscal measures had a distinctly provisional character, the suppression of the State Monopoly of Spirits rendered the creation, after the War, of new sources of revenue absolutely necessary. The Budget Committee pointed out that the Government ought immediately to take into consideration the necessity of elaborating a scheme of reformed taxation, based on principles of equality and equity, which it could lay before the Duma after the War. It expressed the opinion that an Imperial income tax ought to be considered.

The Finance Committee of the State Council came to the same conclusions (the *rapporteur* of the Committee was the former Under-Secretary of the Ministry of Finance, M. Pokrovsky): "The new taxes, instead of simplifying, still further complicated the existing imperfect and highly involved system." The State Council thought it imperative "to wipe out the entire existing system of taxation in order to achieve greater equality and justice in the new."¹² The press, moreover, published a series of new schemes of taxation.

¹² *Promishlennost i Torgovlya (Industry and Commerce)*, 1915, No. 3, p. 147.

Projects for various State monopolies were especially prominent. In addition to tobacco and matches, certain other things, such as oil, insurance and even wine were put forward as the basis of the proposed monopolies.¹³ The whole of 1915 passed, however, without any plan being adopted. The expectation of an early end of the War, which had had so marked an influence on the preparation of the estimates for 1915, here again produced a high degree of caution and deliberation. The confident belief in a speedy termination of the War was undoubtedly the principal reason why the Government did not enact a financial reform during 1915.

The following relatively unimportant changes in the existing system were alone adopted during the year. As regards *direct taxes*, the Law of the 9th January 1915, passed in virtue of Clause 87 of the Fundamental Laws, provided for their revision, and especially for a further extension of the tax on commerce and industry.

From the 1st January 1915, places of entertainment, publishing houses, sailing ships, and silver mines, were made subject to this tax. Several enterprises were also transferred from lower to higher scales of taxation. The tax on interest from capital was likewise extended. Income from interest-bearing securities, except mortgages, had alone been subject to this tax. The Law of the 9th January 1915 imposed a tax on loans secured by real property (mortgages). This tax was levied at the rate of 20 copecks for every 100 rubles, but the rate was increased during 1915 to 30 copecks. The following exemptions were granted: (1) loans of less than 100 rubles; (2) debts to institutions of mutual credit; (3) debts due to the State or to State institutions; (4) debts due to institutions of long-term credit, municipal banks, and enterprises subject to public audit; and (5) debts to pension, saving, and loan banks. This tax was expected to yield 8 million rubles per annum.

The same law increased the tax on special current accounts from 0.216 per cent to 0.396 per cent per annum. As regards duties of the nature of taxes, the Law of the 22nd November 1915, passed in virtue of Clause 87 of the Fundamental Laws, introduced a duty on entrance tickets to places of public entertainment. Two-thirds of this tax went to the Treasury and one-third to the charities of the De-

¹³ *Ibid.*, p. 113; M. Friedman, *Gosudarstvennaya monopolii (State Monopolies)*, in *Vestnik Finansov*, 1915.

partment of the Empress Marie. This tax was enforced from the 15th February 1916.

The following changes were made during 1915 in the category of indirect taxes. Under the head of duties from alcoholic liquor, the Law of the 14th July 1915, passed in virtue of Clause 87 of the Fundamental Laws, extended the excise duty to wines made from grapes, fruit, berries, and raisins, which up to that time had been wholly exempt from taxation. The exemption had been due to the relatively unimportant output of this kind of wine, and to the desire to foster the rural industry that produced it. As regards wine made from grapes, a plan for its taxation had been discussed as early as 1895, but it was found that this branch of industry was not sufficiently developed. The increase in consumption of Russian wines, after the suppression of the State Monopoly of Spirits, led to the introduction of this tax in 1915. The excise duty on wines made from grapes, fruit, berries, and raisins applied both to Russian and to imported wines, but the latter also paid the customs duty in addition to the excise. The Government allowed the following exemptions: (a) wines made from grapes, fruit, and berries for private consumption; (b) wines destined for consumption in the area where the grapes were grown, but not those exported from that area or those sold in urban localities; (c) Russian wines made from grapes and bought for religious purposes by the churches and Christian monasteries.

The excise duty was levied on the sale of each vedro of wine at the following rates: non-sparkling wines made from grapes and those made from fruits and berries, were taxed at the rate of 1 ruble 60 copecks per vedro, whereas sparkling wines and wines made from raisins were subject to a rate of 4 rubles 80 copecks. If the wine was sold in bottles containing one-fourth of a vedro or less, the excise was levied by means of banderoles, but if sold in any other kind of vessels, in cash. Wine shops selling Russian wine and wholesale shops, except those which were situated in the area of wine production but outside urban localities, had to pay an annual excise of (a) not less than 15,000 rubles in Petrograd and Moscow, (b) not less than 10,000 rubles in Kiev, Odessa, Kharkov, Warsaw, Rostov-on-Don, and Riga, (c) from 500 rubles to 10,000 rubles in other towns and regions according to the classification of the locality, which classification was prepared by the Ministry of Finance in consultation with the Department of Agriculture and Land Settlement. The strength of the

wine was limited to 10 *gradus* of the Tralles hydrometer. As only half of the wine actually made was generally exported outside of the area where the grapes were grown, the Treasury estimated the revenue from this source at 17 million rubles.

The excise on matches was substantially increased by the Law of the 14th September 1915, also passed in virtue of Clause 87 of the Fundamental Laws. Packages of safety "Swedish" matches of Russian manufacture, containing from 60 to 75 matches, were taxed at 1.2 copecks, those containing from 120 to 150 at 2.4 copecks, those containing from 180 to 225 at 3.6 copecks, and those containing from 240 to 300, at 4.8 copecks. The excise on imported matches was increased by 50 per cent and all other matches were taxed at a double rate. A retail price limit of 2 copecks, 4 copecks, 6 copecks, and 8 copecks, respectively, was prescribed for the above packages. A fine varying from 100 rubles to 200 rubles was imposed on dealers selling above the price limit or refusing to sell matches at that price. This law was to remain in force until the 1st January 1918.

The Government likewise introduced very important increases in the customs tariff.¹⁴ This measure was contemplated from the very outbreak of war, in order to strengthen the revenue of the Treasury. The Ministry of Commerce rapidly elaborated a bill, providing for the desired increase and submitted it to the leading industrial and commercial organizations of the country for consideration. The bill was subsequently revised by various interdepartmental committees and was finally enacted, in its revised form, on the 28th February 1915. The duties were raised by 100 per cent on all commodities produced on the soil of Germany, Austro-Hungary, and Turkey, or imported through those countries.¹⁵ The tariff was further modified in a threefold manner: (1) a series of commodities of a specially important fiscal character were detached from the general tariff and taxed additionally at specific rates, (2) all treaty rates with Germany and Austro-Hungary were abrogated, as well as those which had been applied since the outbreak of war to commodities imported from allied and neutral countries,—they were replaced by the rates

¹⁴ *Sobranie Uzakoneni i Rasporiazheni Pravitelstva* (Collection of Enactments of the Government), No. 82, 12th March 1915.

¹⁵ For a detailed treatment of this question, see Baron Nolde, *Russia in the Economic War*, in this series of the *Economic and Social History of the World War*.

of the new tariff, (3) with a few exceptions, the general rates of the tariff were raised by 10 per cent. Only certain special duties, which formed the subject of treaties with France, Italy, and Portugal, or which applied to commodities of exceptional importance to agriculture and industry, remained unchanged. Though the primary purpose of this measure was essentially fiscal, its subsidiary aim was the protection of Russian industry. The abrogation of the commercial treaty with Germany and the return to the general tariff of 1903 contributed greatly to the latter purpose. In the opinion of the Permanent Council of the Congress of Industry and Commerce,¹⁶ this measure inaugurated a new area of protection for Russian industry, which had suffered severely from the Treaty of Commerce with Germany. Several increases at specific rates, as above described, were also of importance as affording protection to metal cottage-industries (*kustarnaya*). (The import duty on locks was increased by 30 per cent, that on knives by 20 per cent, that on clocks by 30 per cent, etc.) The manufacture of machinery likewise received protection (the three principal duties on machinery were raised by almost 30 per cent). The home timber and textile industries were also given special protection.

This measure was expected to yield a very substantial increase of revenue. On the basis of the import statistics of 1912, a supplementary revenue was estimated of 83 million rubles. It was arrived at as follows: 55 million rubles from the increases at specific rates, and 28 million rubles as a result of the abrogation of the treaty rates and of the 10 per cent increase in the general rate of the tariff.

Such were the principal alterations made in the Russian system of taxation during 1915. They had by no means the character of a fundamental financial reform, nor were they capable, as appeared later, of making good the loss resulting to the Treasury from the suppression of the State Monopoly of Spirits, nor of supplying the funds necessary for the prosecution of the War. All the fiscal measures introduced in 1915 were, in fact, only a continuation of the policy of automatically increasing the rates which had been adopted in the second half of 1914. The revenue estimated from these changes was from 100 to 110 million rubles, which was insignificant in relation to the increased expenditure caused by the War, and insufficient

¹⁶ *Promishlennost i Torgovlya (Industry and Commerce)*, 1915, No. 9.

even to cover the loss to the Treasury from the suppression of the State Monopoly of Spirits. The full effect of these measures, however, was not expected until 1916, for the revenue of 1915 depended entirely on the results of the measures that had been adopted in the second half of 1914.

CHAPTER IV

REVENUE AND EXPENDITURE IN 1916

SECTION 1. BUDGET OF 1916 (as carried out).

i. *Finance Bill for 1916.*

THE striking discrepancy in 1915 between the forecasts and the actual receipts and expenditure caused the Ministry of Finance to prepare the estimates of 1916 with greater care. While the estimates for 1915 had been based upon the assumption that the War would terminate in the first half of that year, the budget for 1916 contemplated the continuation of the War for the entire year and the possibility that it might even last longer. This doubtless explains the prudence with which it was drawn up.

The Minister of Finance, M. Bark, when introducing the budget in the Duma, said that the "amount of receipts in 1915 had been taken as the basis for the estimates of 1916 and that it had been assumed that the War might continue throughout the year."¹ In accordance with this assumption, the receipts for 1916 were fixed at 2,914 million rubles or about 87 million rubles more than the actual receipts of 1915 (2,827 million rubles), but 218 million rubles less than the estimated revenue for 1915 (3,132 million rubles).² The expenditure for 1916 was estimated at 3,174 million rubles or 100 million rubles more than the expenditure estimated for 1915 (3,068 million rubles). The principal increase of expenditure was in respect of the service of the National Debt (an increase of 140 million rubles) and of the pension fund (an approximate increase of 20 million rubles). A decrease, on the other hand, of 65.3 million rubles was anticipated under the head of the State Monopoly of Spirits; the expenditure under this item being reduced from 105.7 million rubles to 40.4 million rubles.

The above revenue of 2,914 million rubles, together with an extraordinary revenue of 9 million rubles, or a total of 2,923 million

¹ Debates of the Duma, session of the 16th February 1916 (verbatim report), p. 1735.

² The *Financial Statement* for 1916, as introduced, and as finally adopted, will be found in Appendix IV.

rubles, was, however, insufficient to cover the total expenditure amounting to 3,250 million rubles, or even the ordinary expenditure alone of 3,174 million rubles without the extraordinary expenditure of 76.7 million rubles. The resulting deficit of 327.8 million rubles was to be covered by loans. As in 1915, not only the entire war expenditure, but also part of the ordinary expenditure, was provided for by special financial legislation (loans) rendered necessary by the failure of the fiscal measure, introduced after the outbreak of the War to compensate for the loss resulting to the Treasury from the suppression of the State Monopoly of Spirits and the enemy occupation of Russian territory.³

The Finance Bill, as introduced in the legislative chambers, was amended in several important aspects before it became a law. In the course of a detailed examination of all the items of revenue, the Budget Committee discovered that a series of State revenue entries were only nominal receipts. The Finance Bill had anticipated a revenue of almost 100 million rubles from customs duties on cargoes imported by the Government. Payments of duty in respect of these cargoes were made by the Treasury, and merely charged to the account of the war fund. This implied a curious method of book-keeping. While a sum was recorded in the budget as an item of revenue, it was at the same time entered as an expenditure in the accounts of the war fund. This system provoked severe criticism in the legislative assemblies, which declared it to be a deliberate misrepresentation of the financial situation.⁴ Other heads of revenue, besides customs, also contained such "nominal receipts." The revenue from the State railways included, for instance, 150 million rubles of receipts from the transport of government consignments (mainly military) that were likewise only sums charged against the war fund.

Two ways of correcting this anomaly in the estimates were open to the Budget Committee. Either these "receipts" might be entirely cancelled or the necessary credit might be granted in order to balance this peculiar form of revenue. The Budget Committee, the Duma, and the State Council agreed in preferring the latter method. A credit was accordingly introduced under the head of extraordinary

³ Debates of the Duma, IV session, sitting of the 27th February 1916 (verbatim report), p. 1733.

⁴ Cf. Speech of A. I. Shingarev in the Debates of the Duma, sitting of the 16th February 1916 (verbatim report).

expenditure for meeting the customs duties levied on commodities imported by government institutions, and for the payment of the transport of troops and of military consignments. This credit amounted to 245.8 million rubles.

The settlement of this particular question did not, however, exhaust the list of such nominal receipts, as was ably pointed out by M. Shingarev, in his speech of the 16th February 1916 in the Duma. He cited as another instance the sum of 95 million rubles entered as profits of the State Bank on the discount of short-term Treasury bills, *i.e.*, a discount of 5 per cent on State liabilities which the Bank recorded as a profit. But as the discount had to be paid by the Treasury, it involved a corresponding public expenditure. M. Shingarev was thus thoroughly justified in declaring the profits of the State Bank on the above transactions to be receipts only in name.

The Budget Committee and the legislative assemblies made yet another alteration in the Finance Bill of 1916. They authorized the issue of 150 million rubles of Treasury notes in replacement of defective token coins, and the entry of a corresponding sum as extraordinary revenue. This revenue was, however, only of a provisional character, because an adequate supply of silver would have to be coined at some later date to redeem these notes, so that the greater part of the above issue constituted not real revenue but a merely nominal receipt.⁵

The budget for 1916, as voted by the legislature and sanctioned by the Emperor, was finally balanced at the following figures: the ordinary revenue was fixed at 3,032 million rubles and the ordinary expenditure at 3,287 million rubles.

The extraordinary revenue was estimated at 159 million rubles and the extraordinary expenditure at 358 million rubles. The budget thus showed a deficit of 455 million rubles which it was intended to cover by means of loans.

ii. *Ordinary and Extraordinary Revenue for 1916 Actually Received.*

An examination of the actual receipts of 1916 reveals at the first glance the important increase of revenue in that year over both the estimates for 1916 and the actual receipts of 1915. The table below

⁵ Debates of the Duma, session of the 16th February 1916 (verbatim report), p. 1759.

gives the comparative figures of the estimated and actual receipts for 1916 as well as the actual receipts for 1915:

	<i>1916 Estimated Revenue</i>	<i>1916 Actual Receipts (millions of rubles)</i>	<i>1915 Actual Receipts</i>	<i>Increase</i>
Tax on commerce and industry	192.6	443.7	212.0	+231.7
State railways	728.6	964.7	783.2	+181.5
Customs	314.4	459.4	283.4	+176.0
Duty on passenger rates and freights	240.0	346.6	224.8	+121.8
Profits of the State Bank	115.0	121.4	30.1	+ 91.3
Tobacco	149.5	169.6	114.2	+ 55.4
Stamp duty, Court fees, etc.	128.2	162.0	125.6	+ 36.4
Transfer of property	32.1	63.7	32.0	+ 31.7
Postal revenue	94.6	108.6	86.9	+ 21.7
Petroleum	82.0	80.4	61.2	+ 19.2
Telegraphs and telephones	70.6	78.5	62.0	+ 16.5
Sugar	190.8	202.4	186.1	+ 16.3
Direct taxes and duties	118.9	115.9	104.8	+ 11.1
All other receipts	574.8	657.6	521.4	+136.2
Total	3,032.1	3,974.5	2,827.7	+1,146.8

As will be seen from this table, the ordinary revenue showed an extraordinary increase of 1,146.8 million rubles, which was 40 per cent of the actual receipts for the year 1915. This increase affected almost without exception every item of the public revenue. The reason for this is to be found in the unique financial and economic situation created by the War. As a consequence of the conscription of a large part of the male population, the Treasury became the chief buyer on the domestic market—a fact that exerted a twofold influence on the revenue.

Governments, as a rule, are less economical purchasers than private individuals. War-time conditions, moreover, almost entirely suppressed competition between industries engaged on national defense work. The greatest possible output of munitions, regardless of the cost to the Treasury, became the principal object of the Government's declared policy. The extravagance of the Treasury in these circumstances increased the profits of these industries to an

extraordinary extent. In the early days of the War, only those branches of industry which were working directly for national defense were affected by having the Government for customer, whereas now all branches of industry benefited by this position. "War profits" were a reality in Russia, as in all other belligerent countries.

The table below indicates the increase of profits, from 1913 to 1916, of 134 leading industrial enterprises:⁶

	1913	1914	1915	1916
		(millions of rubles)		
Share capital	301.6	317.8	324.6	347.5
Reserve capital	58.3	62.0	67.6	70.6
Sinking fund	112.0	125.3	144.1	169.3
Gross receipts	55.3	65.5	88.1	157.1
Percentage of share capital	18.4%	17.5%	27.1%	45.3%
Taxed profits	35.5	34.1	55.9	111.3
Percentage of share capital	11.8%	10.7%	17.2%	32.0%
Dividends	27.0	22.6	32.5	50.1
Percentage of share capital	8.9%	7.2%	10.1%	14.4%

Or if the results of 1913 are taken as = 100 we obtain the following index numbers:

	1913	1914	1915	1916
Share capital	100.0	105.4	107.6	115.2
Gross receipts	100.0	100.4	159.3	284.1
Taxed profits	100.0	96.1	157.5	313.5
Dividends	100.0	83.7	120.3	185.0

While the profits of these enterprises fell by almost 15 per cent in the first year of the War, they increased, as compared with the figures of 1913, by 50 per cent in 1915, and by 200 per cent in 1916. This increase in profits produced a corresponding increase in the receipts from the tax on commerce and industry.

The general increase in the price of all commodities exerted, moreover, a proportionate influence on the State revenue. This increase, which became especially marked during the third year of the War, when the ruble depreciated heavily owing to inflation, was naturally reflected in the receipts of the Treasury.⁷

Other causes were also operating to produce the same effect. The

⁶ V. Shary, *Dokhodi aktsionernikh predpriyati vo vremya voini* (Profits of Joint-stock Companies during the War), in *Vestnik Finansov*, 1917, Nos. 31, 33.

⁷ This subject is dealt with in another monograph in this volume.

extraordinarily rapid growth of the customs revenue in 1916 was caused by the import from allied and neutral countries of vast quantities of raw materials and manufactured goods required for national defense. The increase in railway receipts was due mainly to the transport of troops and government consignments. The increase in receipts from the duty on passenger rates and freights is attributable to the same cause. The growth of the profits of the State Bank was similarly due to war conditions. They were derived, for the most part, from the issue of short-term Treasury bills, discounted, as already explained, by the State Bank.

An analysis of the various heads of public revenue shows that this increase was due not merely to the general influence of the War, but also, and chiefly, to the extension of government activities during the War. The Treasury became the principal buyer of home produce, the chief importer of foreign commodities, the most important employer of the transport service, etc., which greatly increased its own receipts. All receipts resulting from the Government's activities were, however, finally paid by the Treasury, and charged to the war fund. They were consequently merely nominal receipts. M. Dementiev⁸ reckons at 802 million rubles the aggregate amount of the sum thus dealt with, or 70 per cent of the total increase of revenue for the year (1,146 million rubles). In addition to the increase in the ordinary revenue, the extraordinary revenue likewise showed a marked development (receipts from loans excluded). Instead of the estimated 159 million rubles, the extraordinary revenue attained 327 million rubles, of which 115 million rubles were derived from the issue of stamps in replacement of token coins, 152 million rubles were profits from the sale of foreign exchange, and 58 million rubles were unexpended army credits which were repaid to the Treasury.

iii. *Ordinary and Extraordinary Expenditure of 1916.*

The expenditure of 1916 also increased, though on a relatively smaller scale. While the revenue increased by 1,146 million rubles, the increase in the ordinary expenditure attained 279.1 million rubles as compared with 1915 (2,921.8 million rubles expended in 1916 and 2,642.7 million rubles in 1915). This increase was chiefly due

⁸ Dementiev, *op. cit.*, pp. 307-309.

to the growth of the payments for the service of the National Debt, which exceeded those of 1915 by 173.4 million rubles.⁹ A comparatively small margin of growth remained for other items of expenditure. These figures, however, have only a relative value. Owing to the existence of the extra-budgetary war fund, the strict division between ordinary and extraordinary expenditure was obscured. Many supplementary grants were charged to the war fund, as may be illustrated by a single instance. The expenditure due to the operation of the State railways showed a decrease of 26 million rubles under the head of ordinary expenditure, while the corresponding head of revenue showed an increase of 181.5 million rubles. The explanation of this very striking economy in the railway expenditure is to be found in the fact that the funds to meet this expenditure were partly drawn from the ordinary and partly from the extraordinary revenue. In 1915, for example, 55 million rubles were charged to the war fund, while in 1916 a sum of 193 million rubles or an increase of 138 million rubles was thus dealt with. Instead of a decrease under this head of expenditure, as one would infer from the accounts, there was in reality an increase of 112 million rubles (138 million rubles less 26 million rubles).

This instance, cited by M. Dementiev,¹⁰ shows the unreliable character of the ordinary estimates during the War, and proves how difficult it is to ascertain, owing to the existence of an extra-budgetary war fund, the precise amount of the ordinary expenditure. The Duma was fully justified in demanding the return to a single budget, to include all public revenue and expenditure and embrace war disbursements of every kind.

The extraordinary expenditure in 1916 (apart from war expenditure) amounted to 230 million rubles. Its principal items were: construction of railways, 145.5 million rubles; construction of ports, 8 million rubles; economic and strategic expenditure by the Military and Naval Departments, 65 million rubles.

iv. *War Expenditure of 1916.*

War expenditure charged, as indicated above, to the extra budgetary war fund, increased very substantially during 1916. While the

⁹ 690 million rubles in 1916 and 516.6 million rubles in 1915.

¹⁰ Dementiev, *op. cit.*, p. 307.

daily expenditure at the beginning of the War did not exceed 10 million rubles approximately, it augmented steadily until it reached, at the beginning of 1916, 32.3 million rubles.

Professor S. A. Posnikov, member of the Duma, in his report on the extension of the right of issue by the State Bank, gives the following figures for the war expenditure. In the first four months of 1916 (January to April), the total expenditure on the War amounted to 3,909 million rubles or an average of 32.2 million rubles a day, but in the latter part of the period the daily disbursements amounted to as much as 37.6 million rubles. The *Financial Statement* of 1917¹¹ gives the total of 8,220 million rubles for the war expenditure from the 1st January to the 1st September 1916. The expenditure of the last four months of the year was estimated at 5,650 million rubles, which makes the total for the whole year 13,870 million rubles.

The figures compiled at a later date by M. Dementiev placed the total war expenditure during 1916 at 14,572.8 million rubles, which is almost double the war expenditure in 1915 (8,814.4 million rubles).¹² This immense increase was due to the greater number of men under arms and to the steady rise in the average expenditure per soldier. Professor Prokopovich reckons that the army almost doubled in number by the end of 1916 (growing from 5 to 6 million men in the second half of 1914 to 10,900,000 men in the second half of 1916). The average daily expenditure per soldier increased during the same period from 1.5 rubles to 4.2 rubles¹³ or 2½ times. This was due to the great increase in prices caused by the depreciation of the ruble.

All this expenditure was met, as in 1915, mainly out of loans.

The funds derived by the Treasury from loans during 1916 were as follows:

<i>Receipts</i>	(millions of rubles)
Domestic loans	4,173.9
Foreign loans	3,664.8
Discount of short-term bills	5,610.6
Total	13,449.3

¹¹ *Financial Statement* for 1917, Part I, p. 22.

¹² Dementiev, *op. cit.*, p. 308.

¹³ Prokopovich, *op. cit.*, p. 82.

A more detailed account of these transactions will be found in other monographs of this volume.

v. Balance of the Budget of 1916 (as carried out).

The general balance of the budget of 1916, as carried out, may be expressed in the following figures compiled by M. Dementiev:¹⁴

<i>Revenue</i>	(millions of rubles)
Ordinary	3,974.5
Extraordinary (loans excluded)	327.0
Loans	13,449.3
	<hr/>
Total	17,750.8
Carried forward from preceding years	30.0
	<hr/>
Grand Total	17,780.8
 <i>Expenditure</i>	
Ordinary	2,921.8
Extraordinary (war expenditure excluded)	230.0
Caused by the War	14,572.8
	<hr/>
Total	17,724.6
Interest on the rediscount of short-term bills	376.0
	<hr/>
Grand Total	18,100.6

The execution of the budget of 1916 resulted in a deficit of 319.8 million rubles. If the deficit of 1915, amounting to 382.1 million rubles, is added, a total of 701.9 million rubles is obtained as the aggregate deficit on the 1st January 1917.

A comparison of these results with the records of 1913 (the last normal year) and 1915 suggests the following very interesting observations. In contrast to the first years of the War, the revenue not only equalled but nominally exceeded, to a substantial extent, the revenue produced by the last peace budget, that of 1913, amounting to 3,974.5 million rubles in 1916 as against 3,417 million rubles in 1913. The ordinary budget was nominally balanced with a surplus of 1,052.7 million rubles after paying the interest on the increasing National Debt, and the Treasury was compensated for the loss it had sustained by the suppression of the State Monopoly of

¹⁴ Dementiev, *op. cit.*, pp. 308-309.

Spirits. This favorable impression, however, is dispelled as soon as the official figures are subjected to closer scrutiny. War conditions alone had inflated the national revenue, by increasing the Treasury's railway receipts, swollen by the transport of government freight, the customs duties, greatly developed by government imports, and the profits of the State Bank from the discount of short-term Treasury bills. The increase of receipts from taxes was due partly to the intensified industrial activity resulting from the War, and partly to the depreciation of the ruble. As regard expenditure, the practice of transferring some of the charges from the ordinary expenditure to the supplementary war fund, has already been explained. In 1916 the sum of 504.2 million rubles, which had been voted for the maintenance of the army, navy, and corps of frontier guards, was thus transferred. Many other items of expenditure were likewise charged to the war fund.

These considerations show the fictitious character of the substantial balance on the ordinary budget shown by the accounts. If all fictitious receipts and expenditure arbitrarily transferred in 1916 to the war fund were corrected, the increase of the ordinary revenue would be insufficient to cover the additional ordinary expenditure of that year. The influence of war conditions on the growth of Treasury receipts should also be taken into consideration. The greater part of the real increase of revenue was purely temporary and would promptly come to an end with the War to which it was due; but the greater part of the increase of expenditure—service of loans contracted during the War, war pensions, the reconstruction of devastated areas—would certainly remain after the War and upset the illusory equilibrium achieved by the ordinary budget of 1916. There was only one means of preventing this, the measure very courageously advocated by Count Kokovzov, member of the State Council, former Minister of Finance: "merciless taxation," which meant the immediate increase of existing taxes and the imposition of fresh taxes.

SECTION 2. PROJECTED TAXATION AND FISCAL MEASURES INTRODUCED IN 1916.

The Government, as indicated in a former chapter, did not elaborate any special financial program during the first year and a half of the War. Reforms were limited to a general increase of a series

of existing taxes, enacted under Clause 87 of the Fundamental Laws, that is to say, without the coöperation of the legislature.

The Government justified its recourse to this exceptional procedure chiefly by invoking the extraordinary situation created by the War and the immediate necessity of compensating the Treasury for the loss of the revenue due to the suppression of the State Monopoly of Spirits. The necessity was too urgent to elaborate a financial program, for, to use the Minister's own expressive words, "means had to be taken where they could be found in the shortest possible time." Another factor that had considerable influence in official circles was the feeling of certainty that the War would terminate by the end of 1915. The preparation of a financial program was, in the Government's opinion, a matter to be postponed until the more favorable times of peace. It seems likely that the Government attached a decisive importance to the latter consideration and this explains the delay in the adoption of the financial reforms rendered imperative by the conditions of war and the suppression of the monopoly.

By the end of 1915, the opinion of the Government as to the duration of the War underwent a change. The public began to realize that the War would last for an indefinite period, that it would involve an increasingly severe strain on the national economy, and that the problem of meeting the war expenditure was gradually becoming a vital question for the country. The pressure exerted by public opinion and by the Duma, in the direction of a change of the existing fiscal system, caused the Government to convene, in the early part of 1916, a conference on the subject of the pending reforms. The Government elaborated its own plan and laid it before the conference in the shape of a Memorandum "On the question of the reform of the existing system of taxation." This Memorandum is so important as to call for careful examination.

i. The Government's Program of Financial Reform.

In the preliminary part of the Memorandum, its authors emphasized the necessity and opportuneness of a reform of the existing system of taxation: "The present War is demanding from Russia, as from all the other belligerent countries, immense appropriations to cover the manifold expenses of the War. The resulting financial strain will certainly exert a profound influence upon the country

even during the years immediately following the peace. The accumulation of military stores necessary for the national defense, the redemption of war loans, the necessity of providing for disabled soldiers and for the families of victims of the War, the gradual reconstruction of the national wealth destroyed by the War, are among the many pressing problems that will have to be confronted by the belligerent powers. Their solution will involve immense expenditure. Besides the reinforcement of the pre-war public revenue, a necessity common to all belligerent countries, Russia will be faced by another no less important problem—that of replacing from other sources the large revenue formerly derived from the State sale of vodka. This problem arose at the very beginning of the War, and in the existing circumstances the Government decided to increase the current taxes and to create several new taxes capable of easy collection. The measures adopted in 1914 and 1915, which, according to preliminary estimates, are calculated to yield a normal additional revenue of over 600 million rubles, should be adequate to cover the loss from the abolition of the State Monopoly of Spirits. But the problem with which we are confronted, of finding sufficient resources to cover the new permanent expenditure caused by the War, is not entirely solved by these measures. The procedure employed in the enactment of these measures, necessitated by the urgent demands of the War, is obviously not one by which the existing system of taxation can be improved. The increase of current taxes and excise duties and the creation of several new taxes have rendered the defects of the existing system of taxation only more apparent. It is mere justice, however, to add that the system of every country has some defects.

“The financial department is thus confronted with an exceptionally important task: the modification of our system of taxation in such a manner as to enforce, as between the various classes of the population, the principle of equality in the distribution of the burden of taxation. The reform of the present system, while not laying too heavy a charge on the fertile and solid resources of the ordinary revenue, already reduced in an important measure by the abolition of the revenue from alcoholic liquor, should enable us to discover new sources of revenue sufficiently productive to satisfy both the ordinary needs of the State and the inevitable demands which will be made upon the Treasury as a consequence of the War.”

In order to achieve this object, the Memorandum submitted a re-

form both of the direct and the indirect taxes; but it claimed, as the guiding principle of the reform, "the preservation of the favorable relation between direct and indirect taxes which was established by the abolition of the revenue from liquor."¹⁵ In this connection, it is noteworthy that while indirect taxes prior to the War were from 4 to 7 times as heavy as direct taxes, or, if the net profits of the monopoly are included, from 5 to 6 times as heavy, they were only 2 to 2½ times as heavy after the abolition of the monopoly. The projected reform was intended to continue part of the changes introduced in the Russian system of taxation during the War and to inaugurate new measures.

The principal change in the category of direct taxes, according to the Memorandum, was the creation of a personal income tax. "If this tax is based on the total revenue of the taxpayer and is imposed on a progressive scale, and if it provides for a comparatively high limit of exemption, it should prove, in the opinion of the Government, an efficacious remedy for the inequalities of the existing system." The Memorandum estimated the financial results of this tax at 70 to 75 million rubles.

The Government then reviewed the real as opposed to personal taxes on commerce and industry, land, dwelling-houses, and interest on capital. The document considered it imperative that the receipts from existing real taxes should be increased and that such amendments should be introduced in the Law as were required by the principle of equality and to secure an efficient method of tax collection. As regards the tax on commerce and industry, the Memorandum recommended a reform on the basis of the Bill of 1909, which involved the taxation of enterprises according to their average profits. This reform was estimated to yield results at least as favorable as those achieved by the measures introduced after the beginning of the War, in virtue of Clause 87 of the Fundamental Laws. The receipts of the Treasury from this tax were expected to reach a minimum of 66 million rubles.¹⁶

The Memorandum further proposed the retention of the duty on mortgage securities as well as the duty on special current accounts,

¹⁵ Ministry of Finance, *Zapiska k voprosu o preobrazovanii deistvuyushchei nalogovoi sistemi* (Memorandum on the Reform of the Existing System of Taxation), St. Petersburg, 1915, p. 7.

¹⁶ *Ibid.*, p. 8.

both of which had been introduced during the War. These taxes were believed capable of producing a revenue of 10.6 million rubles. The hitherto very unequal land tax was to be so modified as to adjust the valuation of property to the profits that it yielded. It was proposed to retain the increased war rates per deciatine and to impose a tax of 3.6 per cent on income from land. The financial results anticipated from these changes amounted to 27 million rubles per annum. The tax on urban property as modified during the War, which had yielded annually an increase of 11 million rubles over the pre-war revenue, was retained. This completes the review of the reforms contemplated by the Memorandum in the category of direct taxes, except the increase of certain land taxes which were levied in the frontier areas.

The principal reform projected by the authors of the Memorandum in the category of duties related to the duty on the free transfer of property (death duties and duties on gifts).¹⁷ "The duties on the free transfer of property are doubtless a form of taxation from which a greater revenue may be derived than that at present produced by them. The assignment to the State of part of the property that is inherited or transferred by gift constitutes a form of taxation that also enables the State to check declarations of incomes. The first step towards the reform of these duties was the establishment, in 1915, in virtue of Clause 87 of the Fundamental Laws, of an official register containing the legal valuation of property gratuitously transferred. Next in importance to the placing on the Statute Book of this measure, would be the enactment of the Ministerial Bill effecting a complete reform of the duties levied on the free transfer of property, and even the rates fixed in this bill might be increased without causing injury to any interest. This bill conforms to the principle of progressive taxation according to the degree of the relationship existing between the parties concerned and according to the value of the property involved. This measure should be capable of increasing the national revenue by 13 million rubles."¹⁸ The Memorandum maintained that "the duties ought to be employed as a means of strengthening the resources of the Treasury. The increased rates enacted during the War should be retained (especially several rates of the stamp duty, court fees, and insurance duties).

¹⁷ *Ibid.*, pp. 8-9.

¹⁸ *Ibid.*, p. 10.

The revision of the Stamp Duty Law, which has long been pending, ought now to be effected in order to render it comprehensive and precise, qualities which it lacked but which are the best possible guarantee against the evasion of its provisions." The Memorandum anticipated a total increase of revenue from these changes of 41.3 million rubles, distributed as follows: 28 million rubles from stamp duties, 5 million rubles from fees for the registration of deeds, 5 million rubles from court fees, and 3.3 million rubles from insurance duties.

The tax on persons exempt from military service, enacted during the War in virtue of Clause 87 of the Fundamental Laws, should, the authors of the Memorandum recommended, be given the force of a permanent measure, because of its equitable character and comparatively light burden. It was believed that the annual receipts from this tax, estimated at 17 million rubles, could easily be increased to 50 million rubles as new contingents were called to arms. The united results of all the measures affecting *direct taxes*, the retention of increased rates as well as the enactment of new taxes, were estimated in the Memorandum at 274.6 million rubles per annum.

The authors of the Memorandum concluded the exposition of their proposals with the following remark: "All the reforms contemplated in the category of direct taxation and aiming both at the increase of the public revenue and the best possible equalization of taxation ought to be made an integral part of our ordinary budget. The exceptional circumstances that are menacing the very existence of the State, and especially its national economy, may cause us now to resort to extraordinary provisional measures intended to strengthen the resources of the Treasury. These temporary measures should be continued until the restoration of normal economic conditions. If assured resources for direct taxation, based on considerations of equity and an efficient method of collection are desired, they must be sought among the wealthier classes of the population. The Ministry of Finance has already drawn up a bill providing for the taxation, within equitable limits, of the excess war profits earned by many commercial and industrial enterprises (War Profits Tax). The Ministry of Finance is also occupied with the elaboration of an *extraordinary per capita war tax* to be levied once on the entire taxable population."¹⁹

¹⁹ *Ibid.*, p. 13.

Such were the proposals of the Government in respect to the reform of direct taxation. This reform alone, however, was not considered sufficient to balance the budget. The Government introduced in its Memorandum, therefore, a series of new measures relating to *indirect taxes*. The principle upon which these reforms should be based, was, in the opinion of the authors of the Memorandum, "the taxation of commodities that were not articles of prime necessity and whose consumption was confined to individuals who could financially afford to pay the tax." The system thus proposed had two salient features: the adoption, and the retention as a permanent part of the fiscal system, of the increased taxes enacted during the War. The higher rates affected: alcohol distilled from grain, potatoes, and similar commodities, alcohol distilled from grapes and fruit, compressed yeast, tobacco, matches, cigarette tubes and cut cigarette paper, sugar, oil products. The revenue, in peace-time, from all these items was estimated to amount to 361 million rubles. Of this sum, 142.3 million rubles, or 39 per cent, was the yield anticipated from the higher rates. In addition to the above higher rates imposed during the War, the Memorandum proposed a further increase of the excise on the finer qualities of tobacco and on alcohol distilled from fruit and grapes. The rate of the latter tax was 20 copecks instead of 14 copecks per *gradus*.

The Memorandum did not omit to suggest new indirect taxes. It proposed, in the first place, to retain the excise duty on wines produced from grapes and raisins, which had been enacted in 1915 under Clause 87 of the Fundamental Laws, and which was estimated to yield annually 17 million rubles. The enactment of two other duties was also contemplated: a duty on electric power, and a duty on textiles. It is worth noting in this connection that the question of taxation of electric power was considered as early as 1906. At that time, however, doubts were entertained as to the stability of this industry. The bountiful harvests of the ensuing years and the general progress of the national economy rendered the question less urgent and it was consequently postponed. "But the constant and rapid growth of this industry since the War, in respect both of domestic and industrial needs, as well as the important benefits derived by the public from electric power, have convinced the Government that the electric power industry is now a suitable object of taxation. The

Ministry of Finance has, therefore, submitted a proposal for the taxation of electric power."

As regards textiles, the Memorandum made the following comment: "The Ministry of Finance, after examining the various potential sources for increasing the public revenue, has selected textiles as an object of taxation for the reason that they are a commodity which is of more or less universal use and which would distribute equitably the burden of the impost. It is significant, moreover, that the demand for textiles corresponds very closely to the financial means of the consumer. The variety of the prices of the different qualities makes a graduated system of taxation possible, especially as the more expensive qualities are classified as luxuries. The proposed exemption of hand-made textiles (*kustarnoe proizvodstvo*) would not only diminish the burden of taxation on the rural population, but it would also render a very important aid to the hand-weaving industry in its desperate struggle with factory production."

The Ministry of Finance, therefore, elaborated a bill which conformed to the above principles and which, after discussion with representatives of the textile industry, was introduced into the Duma. The tax, which was fixed at 10 per cent of the price of the material, was expected to yield annually 150 million rubles. The total revenue expected from the increase of the excise duties, including the excise on beer and the supplementary excise on matches, the excise on wines made from grapes, fruit, berries, and raisins, the proposed taxes on electric power, textiles, potatoes, molasses, gunpowder, as well as the increase of several other excise rates, amounted to 361.2 million rubles. In comparison with the estimates of 1914, where the receipts from indirect taxes, exclusive of the receipts from the State Monopoly of Spirits, figured at 361 million rubles, there was an increase of over 100 per cent.

The Memorandum also considered very carefully the question of introducing new government monopolies. It should be mentioned in this connection, that, in the second year of the War, very elaborate proposals were submitted by the press, the legislative assemblies, and public bodies, as to the best manner of increasing the national revenue. Much attention was devoted to the question of State monopolies. The Government was advised to create monopolies for the sale of bread, salt, tea, coffee, sugar, tobacco, matches, oil products, flax,

wool, wine, etc. Two facts accounted for the popularity of this idea: the brilliant financial success that had attended the State Monopoly of Spirits, and the general extension of government activities during the War.

The Government, however, uttered a warning against excessive optimism and its reasons were so interesting that they merit at least a brief analysis. The results of the State Monopoly of Spirits were regarded by the public as decisive in respect to government monopolies. But the Government pointed out that the favorable results of the spirits monopoly were largely explained by the very nature of the monopoly. "Vodka, or alcohol distilled from grain," wrote the authors of the Memorandum, "is in itself a preservative and is never spoilt by changing it from its original condition as stored. It is, moreover, bought at 80 copecks per vedro and is sold after a simple and cheap rectification at 8 rubles 40 copecks without the enormous profit or the reduced consumption which it entails giving rise to any criticism. The full expenses of the Treasury, as well as increasing profits, were always assured, but it would not be so in respect of the proposed monopolies. The sale of articles of indispensable consumption does not permit the same freedom in fixing prices, and in case of inefficient management, a heavy deficit would most probably result.

"The feasibility of the introduction of a State monopoly in any branch of national industry should," the Government maintained, "be determined by the economic conditions prevailing both in the industry and in the State, and only those industries should be monopolized in which the Government is sure of obtaining better results than private enterprise and in which important profits are a reasonable certainty.

"It should also be remembered that the introduction of a State monopoly implies a considerable immediate expenditure on the buying out of existing enterprises and the construction of the new plant. The possibility of incurring so heavy an expenditure in the present condition of the Treasury is very doubtful. This consideration is especially applicable to the introduction of State monopolies for the sale of articles of general consumption. In this case, there would necessarily be a very large outlay on the purchase of former enterprises and on the organization of the monopolies. The present situation, owing to the high prices of articles of general consumption and to the lack of technical equipment and of skilled labor, is not favor-

able to the introduction of State monopolies or to the storage of large stocks, which would be entailed by the inauguration of a Government enterprise."²⁰

In conformity with this view, the Government limited itself to considering the proposal for a monopoly of tea, putting entirely aside the other branches of commerce.

Two other problems were also dealt with in the Memorandum: the customs tariff, and the provisional tax enacted in the latter part of 1914 on goods transported by rail. The Memorandum regarded as provisional the increase of the rates introduced in the General Customs Tariff during 1915, and considered their further increase necessary, provided that it did not violate existing international conventions or conflict with the best interests of the various branches of Russian industry. The guiding principle recommended was the increase of the duty on finished goods rather than on raw materials and semi-manufactured materials. The customs duty on tea, which the Memorandum proposed to raise, was expected to yield an increased revenue of 15 million rubles.

As to the provisional tax on goods transported by rail, the authors of the Memorandum very frankly recognized the defects that had come to light in the execution of the measure. "This tax has proved a heavy burden on transport for short distances, and is especially inequitable in respect of cheap goods destined for sale in a particular area but originating from various regions." The difficulties connected with the enforcement of this tax were foreseen, however, at the time of its enactment, and the Council of Ministers resorted to it only under the pressure of the immediate needs of the Treasury.²¹ Within less than a year of its enactment, the disadvantages foreseen had become manifest. The Memorandum suggested that, in order to replace this tax, the Ministry of Finance should be entrusted with the revision of the railway tariffs in such a manner as to increase the revenue by 120 million rubles. But in the meantime, the retention of the provisional tax was recommended.

In addition to the increase of indirect taxes, the Government proposed to introduce a maximum price for the sale of certain articles affected by the new rates of tax. The necessity of this measure was

²⁰ *Ibid.*, pp. 18-19.

²¹ *Ibid.*, p. 21; see also *supra* pp. 98 *sqq.*, where these difficulties are dealt with in detail.

explained by the fact that "experience has already shown that the increase of existing taxes or the enactment of new taxes is followed by a rise in prices usually exceeding the increment levied. Where the products of syndicated industries are concerned, this increase is frequently out of all proportion to the amount of the new rates of tax." Such a contingency should be avoided at all costs during the War, when competition between the various industries was considerably reduced. The Ministry of Finance proposed, therefore, to fix maximum prices for tobacco, matches, various qualities of sugar, and other articles.

Before concluding this analysis of the Government's financial program, it is desirable to give a summary of the financial results anticipated from its enactment.

Direct Taxes and Duties.

	(millions of rubles)
Enactment of an income tax	75.0
Increase of the rates per deciatine of the Imperial land tax, and of the land duties and rents	27.0
Increase of the land tax in Turkestan	5.0
Increase of the tax on real property in towns, boroughs, and minor urban localities	11.0
Introduction of a tax on real property in townships (<i>uezdnya poselenya</i>)	2.0
Increase of the duty on vehicles	3.7
Reorganization of the tax on commerce and industry	65.0
Application of this tax to new classes of enterprises	1.0
Reorganization of the duty on the free transfer of property:	
(a) Introduction of the new assessment list of legal valuation of land	3.0
(b) Increase of the rate of this duty	10.0
Registration fees (owing to the introduction of the above assessment list)	5.0
Increase of insurance duties	3.3
Increase of court fees	5.0
Stamp duty	28.0
Harbor dues	5.0
Increase of duty on special current accounts	2.6
Duty on advances on the security of real property (mortgages)	8.0
Enactment of the personal war tax	10.0

	(millions of rubles)
Enactment of a provisional war tax on entrance tickets to theatres and places of entertainment	5.0
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Total increase from the reform of direct taxes and duties	274.6
Increase of the postal and telegraph revenue	27.5

Indirect Taxes.

Increase of excise duties

Alcohol distilled from fruit and grapes	3.5
Matches	28.0
Cigarette tubes and cut cigarette paper	3.2
Compressed yeast	4.5
Sugar	25.0
Oil products	27.0
Tobacco products	60.0 ²²
Beer	17.5

New excise duties

Wine made of grapes or fruit	17.0
Electric power	17.5
Textiles	150.0
Potatoes	3.0
Gunpowder	3.0

Total increase of revenue from the increase of the existing and the enactment of fresh excise duties	361.2
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ii. *Criticism of the Government's Financial Program.*

The Government's program of fiscal reform, as described above, was discussed in great detail by the public, by specialists, and by the press. Though several of the proposals were severely criticized, the reforms, as a whole, met with approval. Though a detailed analysis of all the criticisms provoked by the program would be beyond the scope of this work, a general idea of their nature should be given. The criticism submitted by one of the best experts on Government Finance, Professor Friedman, in *Vestnik Finansov*, under the title of *A Financial Reform in Russia*, is entitled to special consideration.²³

²² The receipts from further increase of excise duties on the finer qualities of tobacco could not be estimated.

²³ M. Friedman, *Finansovaya reforma v Rossii* (*A Financial Reform in Russia*), in *Vestnik Finansov*, 1916, Nos. 8 and 10, pp. 221 *sqq.*, and pp. 390 *sqq.*

Professor Friedman believed that the principal defect in the Government's program was that it did not provide sufficient revenue to cover the deficit created in the budget as a consequence of the War. His opinion was based on the expectation that the War would last until the end of 1916. "War expenditure to the end of 1916," wrote Professor Friedman, "is estimated to exceed 22,000 million rubles. Were this expenditure to be met solely out of the proceeds of loans, the interest on them, calculated at 6 per cent, would amount, after the War, to 1,300 million rubles. One-third of this amount is covered by the issue of bank notes against Treasury bills, which are discounted at a profit of 5 per cent by the State Bank. This profit thus returns to the Treasury. If it is assumed that the amount of notes in circulation will not be reduced after the War by means of long-term loans, the above sum may be regarded as a debt free of interest. The total interest would then be reduced to a sum from 800 to 850 million rubles. The loss to the Treasury from the suppression of the sale of vodka is estimated at from 650 to 700 million rubles which brings the total deficit to 1,500 million rubles. To this amount should be added the expenditure necessary to reconstitute the military stocks indispensable to national defense, as well as the payment of pensions and other important items of expenditure. We shall hardly be mistaken if we reckon the annual deficit of the post-war ordinary budget at 1,750 million rubles to 2,000 million rubles."

The Government's program could not, on the other hand, on the most favorable estimate, yield more than 863 million rubles or less than one-half of the deficit according to Friedman's calculation. "Even after the enactment of the financial program," he very significantly adds, "the Russian Budget will still be confronted every year by a stupendous deficit. Therein lies the fundamental defect of the whole financial reform."

"It is thought in certain quarters," continues Professor Friedman, "that Russia is not sufficiently wealthy to balance its budget immediately after the War. Some people think that this deficit cannot be covered by means of new taxation without disturbing the foundation of our national economy and impeding the development of the country's productive resources. Such an opinion leads to the conclusion that Russia must be rescued by the normal expansion of her economic life and not by heavy taxation. Representatives of the

various classes of the population regard this conclusion as almost self-evident, and, in the hope of escaping the burden of new taxes, speak of the impending payments as an obstacle to the development of the national economy and as a hindrance to the progress of separate industries."

Professor Friedman attacked this popular point of view with uncompromising energy. He showed that economic development is a long process of investment of effort and capital, and suggested that the Government should be the first to make sacrifices in order to inaugurate it. "It is therefore necessary," he adds, "to seek new sources from which to meet the deficit on the budget, and the most promising of these sources are heavier taxation and an increased development of Government enterprises and State monopolies."²⁴ Professor Friedman proposed the introduction of State monopolies in respect of tea, sugar, oil, and tobacco (monopolies of sale, not of production). He estimated a potential revenue from these monopolies of 300 million rubles, which would consist entirely of quasi-commercial profits and which would involve no alteration of the existing rates of taxation. Professor Friedman believed that special attention should be given to the revenue from forestry. "The net profits yielded to the State by forests amounted in 1913 to only 64 million rubles. The gross receipts per deciatine from accessible forest-land in European Russia were 1 ruble 7 copecks, while in Prussia they amounted to 27 rubles, and in Saxony they exceeded 40 rubles." Such an income per deciatine as is obtained in certain German States is of course very improbable in Russia, but in Professor Friedman's opinion, it is quite possible to increase, within a comparatively short period, Russia's productivity two- or threefold, provided sufficient attention and capital are devoted to this industry. An extension of the railway lines in the forest area and a better utilization of the raw material would rapidly secure these results. After about ten years of efficient management, the Russian forests should yield to the Treasury an annual revenue of 300 to 500 million rubles without any substantial increase in the price of forest products except such as may result from higher rates of taxation.

The revenue from monopolies and State enterprises having been estimated at 500 million rubles, Friedman proposed to raise the re-

²⁴ *Ibid.*, p. 292.

maintaining 1,500 million rubles, which were required to cover the deficit, by means of increased taxation. "When we consider the Government's program, we should also bear in mind the proposed increase in revenue amounting to 863 million rubles which this program is expected to produce, whereas approximately 1,500 million rubles are required. In these circumstances it is obvious that many of its proposals should be adopted in spite of their being undesirable or even harmful. Judged from the point of view of financial soundness the program fails, because the results proposed do not correspond to the object in view. But the motives which inspired the program are sound and are all in harmony with the economic needs of the country; the retention of the principal features of the program is justified, though certain unimportant details should be deleted."²⁵

"The desirability of the enactment of an income tax is universally admitted. It will certainly yield more than the anticipated 75 million rubles even if the tax is not more efficiently organized than that proposed. We think, however, that this tax, whose rates should be proportionate to the economic progress, ought to be increased and made to yield, during the first years after the War, at least 300 million rubles. In addition to the income tax, a property tax levied on the entire property owned by a taxpayer ought also to be enacted. According to the figures compiled by the Budget Committee in its report on the Financial Statement of 1916, this tax should be capable of yielding annually from 200 to 300 million rubles if the rate is fixed between 0.2 and 0.5 per cent of the value of the property. In order to introduce greater equity in real taxes, the assessment of land values ought to be increased so as to make the tax yield double the amount of the increase, *i.e.*, of 27 million rubles estimated in the Government's program. [It is very significant that the Treasury had previous to the War collected only about 25 million rubles.] It is also imperative to increase death duties, which ought to be at three or even four times the present rates instead of the twofold increase proposed in the program.

"In the category of indirect taxes, the duty on textiles is especially open to criticism. If it is imposed so as to affect the population as a whole, it will be equivalent to the taxation of an article of prime necessity for all classes; but if it is confined to the more expensive

²⁵ *Ibid.*, pp. 290-295.

qualities of textiles, the tax will yield next to nothing. It is only if the tax is made general that it will yield the anticipated 150 million rubles. In spite, however, of its inequalities, we concur in the proposal to enact this tax owing to the impossibility of taxing profitably beyond reasonable limits the wealthier classes of the population. The increase of the duty on sugar from 25 copecks to 40 copecks per pud should also be practicable, for the consumer would not have to pay any more as a consequence of the tax, since the merchant would be sure to raise the price by 1 copeck per Russian pound even if the tax fell short of 2 rubles per pud, at which figure it could be divided by 40.²⁶ If thought advisable, an increase in the customs duty on tea would also be possible, in spite of its present high rate. The general increase of customs duties ought to yield an additional revenue of not less than 100 million rubles above the figures estimated by the Ministry of Finance."

According to Professor Friedman, the following revenue might be added to the increase of 860 million rubles anticipated in the Government's program: (1) from the income tax, 225 million rubles; (2) from the property tax, 200 million rubles; (3) from the land tax, 25 million rubles; (4) from the death duties, 12 to 15 million rubles; (5) from customs duties, 100 million rubles;²⁷ (6) from excise duties on tea and sugar, 25 to 50 million rubles. The total, or about 600 million rubles, if added to the increase anticipated by the Government, would produce a general increase in the revenue of 1,460 million rubles. If this total is added to the 500 million rubles expected from government enterprises and monopolies, it would equal the 2,000 million rubles which, according to Professor Friedman, were required to cover the post-war deficit.

Professor M. Sobolev, another expert in public finance, likewise passed some very severe criticisms on the Government's program. In a collection of essays edited by the A. Chuprov Society, he wrote as follows:²⁸ "The income tax ought to be made the foundation of the fiscal system and not be regarded, as it is at present by the Ministry

²⁶ The Russian pud contains 40 pounds. [Translator's note.]

²⁷ The introduction of monopolies would involve a corresponding increase in prices.

²⁸ Cf. *Voprosi Finansovoi reformi v Rossii (Problems of Financial Reforms in Russia)*, Moscow, 1917, pp. 6-8.

of Finance, as subsidiary taxation. Its productiveness should be much greater than is outlined in the financial program. As a matter of fact up to the present we do not possess any reliable statistical information as to the distribution of the national income. The calculations of the Ministry of Finance therefore are devoid of solid foundation. The income of the commercial and industrial classes as well as that of the liberal professions is surely much higher than has been reckoned by the Treasury. In 1909, the total national income was put at 2,640 million rubles, though only personal incomes above 1,000 rubles were taken into account. The revenue from an income tax was estimated at between 60 and 150 million rubles, and even more when the population should have become accustomed to its operation and should show greater willingness to reveal the true state of their incomes.

“The income tax alone is not sufficient, however, to secure an equitable distribution of taxation, corresponding to the taxable capacity of the population. An increase of taxation on invested capital is also necessary and can, moreover, be secured by the introduction of a property tax. A property tax applies to the income from all kinds of property, both real property and capital, whether it is invested in commercial or industrial enterprises or is liquid. The valuation of the property should be based on its market price, which should not be difficult to determine. In the difficult circumstances in which the Treasury is now placed, the Government would be justified in resorting to this tax, levied at a high rate, as an extraordinary war measure. Since the present War imposes great sacrifices upon the country, we should remember the historical instances of levies of from 10 to 20 per cent imposed on the value of property in order to meet war expenditure. In comparison with the tax paid by the mass of the population in blood and by the inhabitants of the devastated regions, no material sacrifice is too great. The single war tax enacted in 1913 in Germany, at the rate of 0.15 to 1.5 per cent on the value of property, might be cited as an example. Within these limits, the tax could be made to yield during the War about 500 million rubles, assuming the value of the property to be 60,000 million rubles; but in peace-time, when the rate should be reduced to 0.2 or 0.5 per cent, the ratio of the levy to the income from which it is paid would vary between 4 and 8 per cent. This tax

is capable of producing an annual revenue of between 200 and 300 million rubles.”²⁹

Next in importance to this impost was the taxation of unearned increments. Professor Sobolev preferred the German to the British method of levying this tax, for the reason that it provides every three years for a revaluation of unearned increments. This tax is inherently just, for it taxes the increased values of property that are due wholly to social progress and that are entirely independent of the owner's initiative and enterprise. It supplies also a very good means of checking the declared revenue of taxpayers. The increasing productivity of this tax should also be considered, for it would expand with the growth of city life and could certainly be made to yield from 30 to 50 million rubles per annum.

The last item in the Government's program was a series of taxes affecting especially the wealthier classes of the population; the predominant place in the item belonged to death duties. The existing method of imposing death duties was, in the opinion of Professor Sobolev, entirely obsolete. “As a result of the prevailing system of valuation, which was scarcely improved by the Law of 1914, Russian death duties were not progressive, and, as regards distant relatives, their maximum rates were manifestly low. In West-European countries the rates of death duties for distant relatives were approximately 30 or 32 per cent, whereas in Russia they varied from 11½ to 12 per cent, and could therefore easily be increased to 20 or even 25 per cent. The revenue from death duties in Russia was furthermore notoriously small. In the years immediately preceding the War it amounted to only 12 to 13 million rubles. If a more efficient system of revaluation and of administration were enacted, the revenue from this tax could easily be doubled or trebled.”

In conclusion, Professor Sobolev advised the abandonment to the local authorities of the revenue from the land tax, urban property tax, and dwelling-house tax. The tax on commerce and industry should, in his opinion, remain a national tax, provided it was thoroughly reformed and reduced to a lower rate. The supplementary tax on commerce and industry ought to disappear, since it would be replaced by the more perfect system of taxation of incomes and property.

²⁹ M. Sobolev, *op. cit.*, pp. 7-8.

Criticism was also directed against the government program by the Permanent Council of the Congress of Representatives of Russian Industry and Commerce, which represented the interests of all industrial and commercial classes. This body viewed with special disfavor the projected increase of railway tariffs, which was destined to replace the provisional tax on the transport of goods by rail, enacted at the beginning of the War. Its official publication contained the following remarks:³⁰ "By making use of the railway tariffs in order to obtain a substantial increase of revenue, the State throws doubt on their stability, which is essential to the normal development of the nation's commercial life. It embitters competition between rail transport and road and water transport. The war tax on transport, which increased railway fares by an average of 25 to 30 per cent, has obviously influenced the market price of transported goods. Since the latter consist chiefly of foodstuffs, it has inevitably led to an increase in the cost of living."

A no less vigorous criticism was advanced in respect of the tax on textiles, which was intended to replace the tax on Russian cotton. "The tax on cotton," remarks the publication of the Council, "was estimated to yield 30 million rubles in 1915, whereas the taxation of finished goods is anticipated to yield 150 million rubles. The former tax, which was popularly known as 'a tax per shirt,' met with serious opposition, owing to the radical changes which it introduced into the system of indirect taxation, which formerly had always restricted imposts to the minimum number of necessary articles. The tax on textiles, which is obviously destined to occupy a foremost place in the Russian system of indirect taxation, next in importance to customs duties and the excise on sugar, will inevitably lead to an aggravation of this new tendency of taxing even the necessities of life. The former tax which was avowedly not devoid of defects and which had been 'hastily enacted' will now be replaced by an impost which, though very carefully considered by the Ministry of Finance, is 'still less perfect.'"

The allusion in the program to the possibility of establishing new monopolies was also severely criticized by the Council. Here, how-

³⁰ The government bill for the reform of taxation in *Promishlennost i Torgovlya*, 1915, No. 16, p. 108; cf. also A. Orlov, *K predstoyashchei nalogovoi reforme (The Pending Reform of Taxation)* in *Promishlennost i Torgovlya*, 1915, No. 32, pp. 649 sqq.

ever, the criticism was only the reflection of the institution's general policy of defending private enterprise against threats of State interference.

iii. *Fiscal Measures Enacted in 1916.*

The Government succeeded in carrying in 1916 only the following measures of its financial program: In the category of direct taxes, an income tax and a tax on war profits, known as the provisional tax on excess profits of industrial and commercial enterprises and on personal income from industrial professions. These taxes, which were enacted respectively on the 6th April and the 13th May 1916, became effective only at the beginning of 1917.

In the category of indirect taxes, a further increase in excise duties was provided. Part of this increase was operative during the second half of 1916. The following duties were affected: the excise on alcohol sold to varnish factories was increased, after the 15th October 1916, from 2 to 8 copecks; that on alcohol distilled from fruit and grapes from 14 to 20 copecks, *i.e.*, by 43 per cent, in accordance with the decision of the Council of Ministers of the 8th January 1916. The excise on Russian yeast was raised, after the 1st September 1916, from 32 copecks to 40 copecks, *i.e.*, by 25 per cent, and that on imported yeast from 36 copecks to 48 copecks, *i.e.*, by 33 per cent. The excise on wine, levied in 1915 at the rate of 1 ruble 60 copecks upon wines made from grapes, berries, and fruits, and of 4 rubles 80 copecks upon sparkling and raisin wines, was trebled, *i.e.*, raised to 4 rubles 80 copecks and 14 rubles 40 copecks respectively, in accordance with the decision of the Council of Ministers of the 16th September 1916. The decision of the 7th May 1916 (promulgated on the 23rd May 1916) increased the excise on the finer qualities of tobacco so that the average duty levied on the 11th November 1914 of 1 ruble 14 copecks on smoking tobacco was raised to 1 ruble 86 copecks, and that of 1 ruble 78 copecks per pound, on tobacco required for the manufacture of 1,000 cigarettes, was raised to 2 rubles 65 copecks. The excise on the lowest qualities of tobacco (*makhorka*) was raised from 24 copecks to 40 copecks per pound. The average increase of duty on all kinds of tobacco, as compared with the rates of 1914, was 64½ per cent. By the decision of the 16th September 1916, the excise on sugar was increased from 2 rubles to 2 rubles 80 copecks and an additional increment of 80

copecks was imposed on stock held at that date by refineries and warehouses. Imported and Russian bohea tea was subjected to excise duty, the former in addition to customs duties. The rates of excise, which were made effective after the 1st November 1916, were fixed at 20, 22, 26, 30, and 40 copecks per pound of black tea; 35, 40, and 45 copecks per pound of green tea; and from 5 to 25 copecks per pound of Russian bohea tea. The Council of Ministers on the 12th August 1916 raised the excise on fuel oils to 1 ruble 20 copecks per pud and that on oil products to 1 ruble 60 copecks per pud.

The increase in revenue anticipated from all these measures amounted to 393.6 million rubles, distributed as follows: 130 million rubles from the income tax; 80 million rubles from the war profits tax; and the remaining 171.6 million rubles from the increase in excise duties.

While the changes made in the category of indirect taxation were merely increases in existing excise rates, the introduction of a war profits tax and especially of an income tax were of fundamental importance. These measures involved a radical change in the Russian system of taxation, and were the culmination of a reform that had begun at the end of the last century. They merit, therefore, to be dealt with in greater detail.

a. Income Tax.

The introduction of an income tax during the War was the logical result of the fiscal reform movement that had begun at the end of the reign of Alexander II. As has already been pointed out in the first chapter of this work, the reforms of the Emperor Alexander II eventually revolutionized the entire domestic economy of the country, which prior to this reign had been based on serfdom. They likewise led to the ultimate reform of the country's financial system, especially to the abolition of the capitation tax, which was in such flagrant opposition to the new structure of society. It took, however, not less than thirty years to complete the reform of the obsolete system of taxation. This reform, which was effected in stages, introduced certain fundamental changes in the method of levying taxes. Immediately after the establishment of zemstvo self-government, the capitation rates were transferred to the land, a little later the Imperial land tax and the rent duties were likewise gradually trans-

formed and the payments on allotments instituted, which gave to this charge the character of a land tax payable by the peasantry.

The capitation tax on commoners (*meshchane*) was replaced in the towns by an urban property tax. This impost had already grown to be the third most important real tax, its yield being exceeded only by those of the tax on land and the tax on commerce and industry. It was difficult, however, to abolish the principle of apportionment in levying these taxes, owing to the defective organization of the administrative staff. Both the land and urban property taxes continued to conform, therefore, to the principle of apportionment. The tax on commerce and industry underwent only a nominal reform in the reign of Alexander II. It continued to be levied in the form of a license for the carrying on of commerce and industry, but opinions were already beginning to crystallize within the tax commission in favor of taxing commerce and industry according to their gross receipts and profits. The capitation tax, meanwhile, was still yielding a revenue of 60 million rubles. The preparation of plans for its replacement by various kinds of taxes, from a per head duty to an income tax, continued during twenty years. The idea of introducing an income tax took deeper and deeper root in public opinion, and became increasingly popular as the various institutions of self-government developed. Practical considerations alone caused its enactment to be postponed.

The system of real taxes was not yet sufficiently perfected. The results of the investigations of various taxation committees were not available until the early eighties, when a radical reform of direct taxation was at last enacted. The significant feature of this measure was the abolition of the capitation tax. From this time, the path of fiscal reform was cleared of the ancient prejudices of class taxation.³¹ Subsequent reforms were all directed to the object of introducing an income tax into the existing system of real taxes. The first tax to be remodelled on this basis was the tax on commerce and industry.

The idea of enacting a general income tax no longer provoked the same opposition as before. The State Council declared that: "The rapid progress of our country, with a corresponding increase in public expenditure from year to year, will obviously lead us to the adoption of an income tax." Meanwhile, the readjustment of existing

³¹ Cf. *Vestnik Finansov*, 1915, No. 28, p. 46.

taxes was recommended. But even prior to this declaration of the State Council, death duties, the indispensable supplement of an income tax, had already been introduced. The State, moreover, was thus led to confront the taxpayer with a new problem, the need of an independent administration for levying taxes, which should be empowered to assess the objects of taxation and to estimate incomes. This was achieved by the creation of a board of tax inspectors, which became the principal instrument of all fiscal reforms.

These measures were not extended to include the land tax, which continued to function on the principle of apportionment and to perpetuate its gross inequalities. Other real taxes were modified to conform with the principle of taxing average net profits or incomes at fixed rates. The amount of the income was determined by tax inspectors, in collaboration with the taxpayers and the representatives of the local self-governments. The taxes on urban property and on commerce and industry were also reformed in accordance with these principles.

A good many features of a personal income tax were introduced into the latter tax. The necessity for this became increasingly evident, both for reasons of equity and in order to obtain a larger revenue. The Government, however, did not succeed in creating enough support to enact a genuine income tax. The old arguments against its adoption were constantly advanced by the opposition: the small number of large incomes in Russia, the difficulty of ascertaining the net incomes of taxpayers, the unpreparedness of the tax administration to carry out the measure, and the lack of education of the Russian population. In the early nineties, however, taxation of dwelling-houses was attempted as a provisional substitute for an income tax. When this proved unsuccessful, partial income taxes were enacted, that is to say: a progressive tax on the net profits of joint-stock companies, duties on enterprises which were exempt from public audit but which voluntarily submitted their books to the inspection of the tax administration, and a progressive tax on the salaries of government officials and of the personnel of enterprises subject to public audit.

The following characteristic features of an income tax were inserted in the tax on commerce and industry: a non-taxable minimum, a progressive rate, and exemptions for large families. Russia thus

followed in the steps of other European countries, which had passed through the same stages before introducing an income tax. Almost all real taxes were gradually changed to conform to the principle of the taxation of incomes, and several of them were even given the characteristic features of a personal income tax.

The slow evolution of the Russian system of direct taxation was completed at the beginning of the twentieth century. It remained now to ascertain whether the economic and technical impediments in the way of the enactment of an income tax might be regarded as disposed of. These impediments were defined in 1898 by Count Witte, at that time Minister of Finance, when the reform of the tax on commerce and industry was under consideration;³² they may be summarized as follows: (1) The level of civilization of the Russian population is so low that there is no possibility of obtaining exact information as to the net incomes of private citizens. (2) The verification of declarations is extremely difficult, owing to the almost entire absence of private accounts. (3) The enforcement of the tax implies an interference with the private liberty of taxpayers, and places a discretionary power in the hands of State officials such as is incompatible with the undeveloped economic conditions of the country. (4) It would lead to such evasions of the tax as to make it in operation very unjust and to have an unfavorable influence on the morals of the population. (5) The number of wealthy persons in Russia is very small and the financial yield of the tax would be insignificant, as compared with the cost of its collection. (6) The income tax would hamper the accumulation of capital destined for investment in industry, and would retard the formation of a financially independent class, such as is always indispensable to the introduction of representative institutions. (7) The income tax must always follow, but never precede, the reform of other taxes; otherwise it is premature.

The most serious of these objections were those relating to the poverty prevailing in Russia, and to the limited productivity of the tax; but by the beginning of the twentieth century, these objections had lost, with the economic progress of the country, almost all their importance.

³² J. Pokrovsky, *O podokhodnom naloge* (*On the Income Tax*), in *Vestnik Finansov*, 1915, Nos. 1, 3, 7, 11, 12.

Long before the War, conditions were ripe in Russia for the introduction of a general income tax. The problem of the enactment of such a tax first arose in 1905, during the ministry of Count Kokovzov. It was discussed at a special conference of economists and representatives of the tax administration. Matters even reached the stage of drafting a bill, which was undertaken by an interdepartmental committee under the presidency of the Under Secretary of Finance, M. Shipov. The bill, moreover, was laid before the Duma. Its elaboration, which had required two years, had been carried out under two Ministers of Finance and three Cabinets: those of Count Witte, M. Goremykin, and M. Stolypin. The bill represented not a spontaneous decision provoked by the needs of the moment, but the inevitable result of the gradual development of the Russian system of taxation. The bill was introduced in the Duma in 1907, and the Memorandum appended to it set forth very explicitly the principles which had governed the policy of the Ministry of Finance.

The principal object of the Ministry of Finance, the provision of the revenue required to meet the increased national expenditure, was purely financial. The tax, as devised, was not independent of the existing system, but constituted the logical development. It aimed at the most productive use of the existing sources of taxation, without overburdening the poorer classes. "This object could be achieved," in the opinion of the Government, "by taxing personal incomes progressively, and graduating the scale of death duties." In enacting the reform, the Ministry had the advantage of choosing between two existing methods of effecting the transition from the real tax to the income tax, between the British and the Prussian systems.³³ In Great Britain, the income tax retained many features of a real tax and represented a series of direct taxes on specific categories of income. In Prussia, and in other countries, on the contrary, all real taxes were retained and a general tax upon the aggregate income of the taxpayer was superimposed.

The Ministry advanced the following reasons for preferring the Prussian method: "Since the British income tax is not imposed on the aggregate income of the taxpayer, it cannot be said to correspond to his actual wealth and taxable capacity. Progressive rates, the true

³³ For the text of the bill, see the Memorandum (*Zapiska*) presented by the Ministry of Finance to the Duma, April 1907, pp. 1-8.

equitable basis of taxation, cannot be adopted.³⁴ The introduction of the British type of income tax would, moreover, be equivalent to the abolition of all real taxes and to their replacement by a single income tax. Such a reform would be far too hazardous to risk in existing circumstances, when there is an absence of reliable information as to its productivity." Proposing, therefore, the enactment of an income tax as a superimposed tax, the Ministry of Finance regarded it of primary necessity to reorganize the existing system of taxation in order to attain, in respect to each real tax, the greatest possible equity. It accordingly put forward certain reforms of real taxes which would abolish the old system of apportionment and adjust taxation to economic standards. "The former imposts were to be replaced by taxes which would be as nearly as possible a true index to the wealth of the individual and would, accordingly, tend to the maximum productivity." The apportioned tax on urban property was to be replaced by a rated tax graduated in accordance with the average yield of property. The same principle was recommended for the impost on rural district lands (*uezdnaya zemlya*). Licenses for carrying on industrial and commercial businesses were to be wholly replaced by a direct tax on average profits. All taxes which had hitherto been substituted for an income tax (the dwelling-house tax and the progressive imposts on salaries of government officials and employees of industrial and commercial enterprises) were also to be replaced by the general income tax.

The new tax on urban property was, however, the only reform actually enacted. The other changes, during a further period of seven years, never passed beyond the stage of discussion in committee. The income tax was first discussed in the Finance Committee of the Third Duma, which drafted a bill dealing with the entire subject. It was later discussed in a sub-committee of the Finance Committee of the Fourth Duma, but it had not got beyond that stage when the War broke out.

The World War revived the problem of the income tax. The Government, confronted with the necessity of finding new resources to meet the war expenditure and to fill the gap created in the budget by the suppression of the State Monopoly of Spirits, turned in-

³⁴ This is true only as regards the British Income Tax Law at the time. Since that time many improvements have been inserted in the law, e.g., progressive rates, taxation of the aggregate income, etc.

stinctively to the Bill of 1907, which had lain dormant in the committees of the Duma.

When introducing the bill which created the income tax, on the 11th August 1915, the Minister of Finance, M. Bark, made the following statement: "It cannot be denied that it is easier and more practical to enact an important financial reform under normal conditions than in time of emergency. Had the choice been available to the Ministry of Finance, it would doubtless have preferred to institute an income tax in times of peace. It must, however, be remembered that since the outbreak of hostilities a most important reform in our system of taxation, the suppression of the revenue from the sale of intoxicants, has been effected in conformity with the desire of the Emperor. This measure alone would be sufficient to necessitate a reform of the entire system of taxation, as it is impossible to suppress a tax yielding an immense revenue, such as was the tax on spirits, without creating new sources of revenue to take its place. The Government has, therefore, increased certain direct taxes and excise duties and has also introduced new taxation. The estimated revenue from these measures will not, however, be sufficient to cover the ordinary needs of the Treasury and it is imperative that an income tax be enacted."³⁵

But the income tax was not voted without serious opposition in the legislative assemblies. Two main questions prolonged the discussion during the passage of the bill through the Duma and the State Council.³⁶ These were: the minimum subsistence income to be exempted from taxation, and the taxation of corporate persons, especially of joint-stock companies.

The original bill of 1907 fixed the limit of exemption at 1,000 rubles per annum. This comparatively high limit was based upon the fact that the vast majority of the population was already subject to direct and especially to indirect taxation. The suppression of the State Monopoly of Spirits, the revenue of which was for the most part paid by the poorer classes of the population, impaired the force of this argument. The Ministry of Finance thought it advisable, as

³⁵ Debates of the Duma, session of the 11th August 1915, verbatim report; see also *Torgovo-Promishlennaya Gazeta* (*The Journal of Commerce and Industry*), 1915, No. 179.

³⁶ See the Reports (*dokladi*) on the Income Tax Bill of the Finance Committee of the Fourth Duma, No. 20, IV: 4.

a result of the increased prosperity of the masses, especially during the War, to reduce the limit of exemption to 700 rubles. The Duma opposed the change and retained the former limit of 1,000 rubles. The arguments advanced by the Duma in support of its view were as follows: "The rise in the cost of living, which implies a corresponding decrease in the purchasing power of the ruble, now reduced to almost one-half of its former value, is accompanied by an increase in the nominal amount of all incomes. An income of 700 rubles has today the purchasing power of about 300 or 350 rubles before the War." If the lower limit of exemption were applied, the tax would extend to large circles of manual laborers, so that the number of households subject to the tax might, before the end of the War, increase to $1\frac{1}{2}$ or 2 millions. In that event almost one-half of all Russian households would become subject to the tax.

The inability of the masses to make the necessary declaration of income owing to the low standard of education, and the enormous increase in the number of taxpayers, would certainly increase the cost of collection. It should be added that the additional revenue anticipated from the reduction of the limit of exemption is not higher than 8 or 10 million rubles.³⁷

The State Council, in opposition to the Duma, however, lowered the exemption limit, in accordance with the proposal of the Government, to 700 rubles and made the progressive scale of the tax steeper, thereby improving the bill as passed by the Duma. But, by agreement with the Duma, the limit was finally fixed at 850 rubles. It should be noted that the action of the State Council improved the bill both financially and technically. The Income Tax Bill, as it left the Duma, retained the modest features of a supplementary taxation measure, such as had been drafted in 1907, when the finances of the country were in a comparatively good condition. But the State Council, on the initiative of its own members, transformed it into a tax much more capable of complying with the extraordinary demands of the War.

The income tax found a very ardent advocate in Count Kokovzov,

³⁷ These arguments are developed in the report of the Finance Committee of the Fourth Duma on the Income Tax Bill, No. 20, IV: 4, pp. 60-63. A detailed criticism of the amendments made by the State Council will be found in an article by T. Menkov, published in *Novi Ekonomist* (*The New Economist*), 1916, No. 10, pp. 5-8.

who, from the very beginning of the War, and in contrast to Count Witte, advocated a policy of "merciless taxation" as a means of immediately covering a part of the war expenditure.

The second proposal which gave rise to prolonged discussion was the taxation of joint-stock companies. This measure is disputable both in theory and in practice. Without entering into the details of the controversy, it may be mentioned that the taxation of joint-stock companies imposes double taxation, as the dividends of such companies are comprised in the incomes of private persons. The representatives of industry and commerce were the most energetic opponents of this system of double taxation.³⁸ The Duma wavered for some time before deciding in favor of the taxation of joint-stock companies, and the State Council adopted an attitude of compromise by deciding to allow a deduction from the company's taxable revenue equivalent to 4 per cent of its authorized capital. This deduction was reduced to 3 per cent and in this form the proposal was adopted. The bill which had been introduced in the Duma on the 11th August 1915, received the Emperor's sanction in April 1916.

The fundamental principles of this law were borrowed chiefly from the Prussian law, which had already been copied in other German States, in Austria-Hungary, and in the Scandinavian countries. Some of the provisions of the Russian law were literally copied from the German original, including all amendments that had been enacted from 1891 (date of the enactment of the Prussian law) to 1906. Other provisions were borrowed from better models, such as the law of the Kingdom of Würtemberg (1903). Others again were drafted in the light of Russian experience in the application of the tax on commerce and industry, which, as indicated above, was a tax on income earned by enterprises subject to public audit.³⁹

³⁸ *Podokhodni nalog (Income Tax) in Promishlennost i Torgovlya*, 1915, No. 18.

³⁹ N. Ivanov, *Kommentirovanni zakon o gosudarstvennom podokhodnom naloge (Comments on the Income Tax Law)*; J. Kulisher, *Gosudarstvenni podokhodni nalog (The Income Tax)*, in *Promishlennost i Torgovlya*, 1916, Nos. 19 and 20; J. Kulisher, *Nashe oblozhenie v period 1914-1917 goda (Our Taxation during 1914-1917)*, *Ekonomist (The Economist)*, Petrograd, 1922, No. 2; *Journal of the Proceedings of the Committee for the Introduction of the Income Tax in Russia (Kommissya po vvedenyu v Rossii podokhodnago oblozheniya)*, St. Petersburg, 1906.

Following the example of foreign legislation, the Russian Income Tax Law of the 6th April embodied no definition of income, the meaning of which in the science of finance is not always identical with that generally accepted. The law confined itself to the enumeration of the various kinds of income subject to taxation (from stocks, real property, industrial and commercial enterprises, wages or remuneration for services, professions, and sundry other sources).⁴⁰ A second schedule discriminated between income and non-recurrent receipts which produce an increase of property, but are not regular income and are therefore exempt from the tax. This second schedule was considered necessary owing to the difficulty of defining the difference between regular income and increase of property. The law mentioned, as instances of increase of property, receipts from insurance policies and from the redemption of debts, which are really a restitution of property, and legacies and gifts which are occasional additions to fortunes, accruing independently of the activities of the taxpayer. The profits made on the purchase or sale of property (increase in the value of real property or rise in the price of shares and bonds), which have an appearance of increased income, were also included in this group, except the proceeds of professional speculation on real property and securities, and the proceeds of transactions which, though occasional, form an integral part of a taxable negotiation.

Only net profits were subject to the income tax; allowance, that is to say, was made for expenses incidental to the obtaining and securing of profits, for the amortization of property, for bad debts and other losses or destruction of property, unless they were covered by insurance. The remainder constituted the net profits of the enterprise but not of the taxpayer. In order to ascertain the amount of the latter, allowance was made for that part of the net profits of the enterprise which was assigned to other persons or institutions. Such were payments of debts, local rates and direct taxes (indirect taxes were included in the operating expenses), and other obligatory disbursements, required to be made either by law, contract, testamentary disposition, or judgment of a court. The entire remaining sum was declared subject to the tax. In contrast to foreign laws, the Russian law also provided for certain other exceptions, which were

⁴⁰ Clause II of the Income Tax Law.

specially sanctioned by social legislation. Expenditure on agricultural improvements was exempted, provided that this expenditure did not exceed 20 per cent of the gross receipts. Further exemptions were allowed in respect of sums spent on improving the conditions of employees, of the expenditure of institutions engaged in social welfare and educational work, and of donations to religious, charitable, and educational institutions. Voluntary payments of life insurance by the taxpayer or by members of his family were also exempt up to 300 rubles.

Not only individuals, but corporate persons, including coöperative societies, if their activities extended to a clientele outside their immediate membership, were subject to the tax. Coöperative societies of consumers were required to pay the tax whether their activities extended beyond their own members or not. Except for an allowance from their taxable revenue corresponding to 3 per cent of their authorized capital, corporate persons were subject to the provisions of the tax in exactly the same manner as private persons. This allowance, which was copied from the German law, was inspired, as indicated above, by the consideration that the taxation of the profits of stock companies implies a double taxation of the same income: one tax being paid by the company on its net profits and the other by the individual on his dividends. In order to reduce the full effect of this double taxation, the law provided for an exemption of a part of the company's profits.

All sums allocated to special funds of joint-stock companies were as a rule added to their profits for the purposes of the tax, except in the following instances: sums allocated by insurance companies to the fund reserved for the payment of premiums, as this fund was considered as the property of the persons insured; payments by the holders of stocks and shares of the difference between the nominal value of stock and the price of issue, as this difference was considered to represent an increase of property rather than an actual income; payments made by the Treasury on the guaranteed stock of railway companies and the sums paid by the latter to the Treasury in respect of its share in the profits.

The exemption limit, which after much discussion was fixed at 850 rubles, was really too low, owing to the depreciation of the ruble, so that the tax was extended to large classes of the population which it was not originally intended to tax. It embraced about one-half of

all Russian households, and for small enterprises was almost the equivalent of a capitation tax.

The rates of the tax were as follows (only a few out of the 91 grades enumerated in the law are shown in this table) :

INCOME		TAX	
<i>Rubles</i>		<i>Rubles</i>	<i>Percentage</i>
up to	850	(exempt)	
from 850 to	900	6	0.6
from 900 to	1,000	7	0.7
from 1,800 to	2,000	20	1
from 2,900 to	3,200	45	1.5
from 4,500 to	5,000	100	2
from 7,000 to	7,500	188	2.5
from 9,500 to	10,000	300	3
from 14,000 to	15,000	600	4
from 19,000 to	20,000	1,000	5
from 29,000 to	30,000	1,650	5.5
from 35,000 to	40,000	2,400	6
from 45,000 to	50,000	3,250	6.5
from 60,000 to	65,000	4,508	7
from 95,000 to	100,000	8,000	8
from 140,000 to	150,000	13,500	9
from 190,000 to	200,000	20,000	10
from 290,000 to	300,000	33,000	11
from 300,000 to	400,000	48,000	12

That part of the income which exceeded 400,000 rubles was taxed at the rate of 12½ per cent, so that the maximum amount levied on the aggregate income came very near to 12½ per cent without, however, reaching that maximum.

The income tax thus instituted in Russia was progressively graduated to very high rates, in fact higher than in any other European country except Great Britain, but in Great Britain it was already long established, the population was accustomed to it and there existed no other direct impost except the inhabited house duty.

The Russian law followed the example of Prussia in introducing a so-called "children's clause." Every family having more than two members under twenty-one years of age, or over sixty, was lowered in the classification by one grade for each additional member of the family. A reduction of the tax not exceeding three grades, was allowed at the special request of the taxpayer, in cases of sickness or

accidents, provided the taxpayer's income did not exceed 6,000 rubles.

The members of the assessment boards were chosen in Russia, as in other European countries, by election. The district board consisted of the tax inspector (president *ex officio*), of two members elected by the district zemstvo board or the municipal council, and of four or more members elected by the taxpayers themselves. The numbers of this last category of members varied according to the number of taxpayers in the district. The provincial board consisted of the chief of the local Treasury board (*Kazennaya Palata*), as president, of a member of the District Court (*Okružnoy Sud*), of two representatives of the Ministry of Finance, and four members elected from among the taxpayers by the provincial zemstvo board, the municipal council, and the Exchange Committee.

The income tax was based upon the principle of declaration. Explanation and proof by the taxpayer were required of only such figures as the board considered doubtful. The board was obliged, however, to set forth its reasons for considering a declaration doubtful, but it might in such cases require the production of books and other documents, as well as the examination of witnesses and experts, to assist it in its investigation. A very important means of controlling the declaration of taxpayers consisted in the obligation devolving on all public and private institutions, and on credit, insurance, and transport companies (railway and shipping) to supply the income tax officials with all available information concerning the income of individual taxpayers. In this respect the Russian law went farther than that of any other European country. It required banks to permit inspection of their books and accounts and to give any information desired concerning deposits or any other transactions.

Certain joint-stock companies were obliged to produce annually a list of such of their shareholders as held registered shares and the names of all persons who had shown proof at the general meeting that they held shares. This provision, enacted for the first time in Russia, constituted a new feature in income tax laws.

The Income Tax Law, though sanctioned on the 6th April 1916, was not actually brought into effect until the 1st January 1917. The estimates for the year 1917 provided for a revenue under this head of 130 million rubles.

The Budget Committee of the Duma insisted that the Ministry of Finance should also draft a proposal for a General Property Tax. It was intended that this tax should supplement the income tax by imposing an additional burden upon the income derived from all kinds of property. The Budget Committee considered the value of private property in Russia to exceed 60,000 million rubles. If a property tax were imposed at a rate varying from 0.2 to 0.5 per cent, it would constitute from 4 to 8 per cent of the taxpayer's total income and should yield to the Treasury 300 million rubles per annum.

b. *War Profits Tax.*

The full title of this tax, which was enacted simultaneously with the income tax, was a "Temporary Tax on the Excess Profits of Industrial and Commercial Enterprises and on the Increased Incomes Derived from Professions." This tax was enacted in almost all belligerent countries. The War, while bringing death and ruin to large numbers of the population, gave to others the opportunity of earning immense profits and of substantially increasing their wealth. While some countries applied this tax indiscriminately to the increase of profits of every kind, others limited its scope to industrial and commercial enterprises, because they considered these capable of producing the largest excess profits.⁴¹ Russia adopted the second principle and followed the example of Great Britain, France, and Italy.⁴² As a matter of fact, Russia had hardly any choice in the matter, because prior to the War the only tax based on income was that on commerce and industry; and a pre-war tax on income was indispensable for the purpose of ascertaining the difference between profits made before and during the War.

The explanatory memorandum submitted by the Government to the Duma mentioned the following arguments in favor of the enactment of the tax:⁴³ "Though the War at first entirely arrested the

⁴¹ J. Kulisher, *Nalog na voennuyu pribil (War Profits Tax)*, in *Vestnik Finansov*, 1917, Nos. 32 and 33.

⁴² Data concerning the increase in profits of industrial and commercial undertakings are given on p. 140.

⁴³ For the taxation of war excess profits and earnings, see the Memorandum (*Zapiska*) of the Ministry of Finance No. 14,744, dated the 27th November 1916.

normal expansion of commerce and industry, it subsequently caused a very rapid economic development. The activities of certain branches of industry, it is true, have either been considerably reduced or brought to a complete standstill; distilleries and the sale of alcoholic liquor, export trades, construction work, and luxury trades, are instances of this. The War, however, stimulated great activity in those branches of industry which were in some way connected with itself, and enabled their proprietors to make unprecedented profits. The first industries to feel the impetus of the War were the enterprises engaged in the production and sale of articles necessary to the army (textile factories, tanneries, flour mills, manufactories of foodstuffs, and establishments supplying general army equipment). But other branches of commerce and industry have likewise profited. The cessation of import of foreign goods, the increased prosperity of the population resulting from the suppression of the State sale of spirits, the increased consumption where troops were concentrated, and even the temporary disorganization of the transport service, during the early days of mobilization—all these extraordinary conditions served to provide the occasion for profit. The supply of goods being limited, most dealers not only increased their prices, but also disposed of old stocks which they had been unable to sell before the War.”⁴⁴

The provisions of the War Profits Tax, enacted on the 13th May 1916 in virtue of Clause 87 of the Fundamental Laws were as follows. The tax applies to:

- (a) Enterprises subject to public audit, if their profits exceeded 8 per cent of their invested capital and also their average profits for the years 1913 and 1914.
- (b) Enterprises not subject to public audit, if their profits were not less than 2,000 rubles and were 500 rubles more than their average profits for 1913 and 1914.
- (c) Contractors for supplies conducting businesses under special licenses, if their profits fell within the provisions under section (b).
- (d) Persons, who held positions as members of boards or revising committees, if their remuneration exceeded their average income for 1913 and 1914 by not less than 500 rubles.

⁴⁴ *Ibid.*, p. 23.

The tax was levied:

- (a) Upon enterprises not subject to public audit, contractors, and members of professions, at the rate of 20 per cent upon profits above 500 rubles.
- (b) Upon enterprises subject to public audit, at such a rate that the total of the Percentage Tax, the Income Tax, and the War Profits Tax did not exceed 50 per cent of the net profits.⁴⁵

The tax on war profits met with severe criticism from representatives of industrial and commercial classes, who argued that the "war profits" had an accidental character and were for the most part produced by the depreciation of the national currency during the War. This, however, was only partly true. The so-called "war profits" were undoubtedly partially due to the increase in prices, owing to the depreciation of the ruble, but more so to the disorganization of the economic situation through the absence of competition.

The second objection was much better founded. It was pointed out that the tax, while extending to professions and to industrial and commercial enterprises, did not apply to agents and middlemen, who obtained and resold government contracts; and on the other hand, that it extended to the personnel of joint-stock companies. The objection was certainly well-grounded, for certain persons who, owing to their position or acquaintances, had obtained contracts from the Government were able to resell them at enormous profit. As regards the taxation of the personnel of joint-stock companies, it was evidently not the profit made in industrial or commercial transactions that was here taxed, but simply the wages of the employees. Both provisions, however, were amended in 1917, when the War Profits Tax underwent a thorough reform. The estimates for 1917 included a revenue from this tax of 55 million rubles.

iv. *Proposals for Taxation during 1916.*

Only the above two taxes were enacted during 1916. The remainder of the program never passed beyond the stage of discussion in committee. Though the Government drafted a bill imposing a levy on all products of the textile industry, it never succeeded in carrying it into law and only incurred widespread disapproval.

⁴⁵ *Pravitelstvenni Vestnik* (*The Official Gazette*), the 17th May 1916, and *Vestnik Finansov*, 1916, No. 21.

The impost on textiles⁴⁶ was nicknamed by its opponents the "per shirt tax." The Ministry of Finance made the following comment in the explanatory memorandum which it appended to the bill: "Since the tax is applied to a commodity used by all classes of the population, its burden is, therefore, distributed not only generally but also justly. Textile products are consumed in direct proportion to the wealth both of individuals and of classes, and the great variety in the quality of textiles enables the Government to graduate the incidence of the tax by attaching the heavier imposts to the more luxurious articles." The bill proposed special excise duties on textiles, but in order to assure the protection of the home industry, it made the new excise duties conform to the classification of the existing customs tariff, and also introduced certain additional classes based upon the thickness of the cloth, the quality of yarn used in its manufacture, the method of weaving, etc.⁴⁷ The products of the cottage industry were exempt, provided that the weaver worked with a maximum of 3 looms and without mechanical or animal power.

In order to verify the output of textiles, regulations were drawn up which conferred upon the tax officials large discretionary authority. Before new factories were built or old works transferred to new sites, a special declaration containing the plans and the description of the new establishment had to be submitted. Every factory was obliged to have a special warehouse for storing its cloth after registration. No other industry was allowed on the premises of the factory. The excise controller was required to live in the factory itself and was authorized to visit all places where the cloth was manufactured. No cloth was allowed to leave the factory to be finished elsewhere without his authorization, and he was empowered, under certain conditions, even to suspend the process of manufacture. The owners were required to supply to the excise department full information concerning the goods manufactured and sold. These goods might be disposed of only in the particular form in which they were registered and their factory and registration marks were to remain intact until the goods had been consigned.

⁴⁶ Cf. S. Tretiakov, *The Textile Industry in Russia during the War* in this series of the *Economic and Social History of the World War*.

⁴⁷ *Torgovo-Promishlennaya Gazeta*, 1916, No. 89; J. Kulisher, *Nashe oblozhenie v period 1914-1917 goda* (*Our Taxation during 1914-1917*), in *Ekonomist* (*The Economist*), 1922, No. 2.

The wide discretionary authority vested in the excise officials provoked strong opposition on the part of the representatives of industry.⁴⁸ They considered this authority dangerous to the free and unimpaired development of the textile industry. The tax was pronounced quite impracticable owing to the fact that the factories subject to the excise were distributed over fifty-one provinces. On account of the variety of textile products, a minimum of ten offices of inspection had to be maintained in order to classify and register each article correctly. Such a system obviously entailed great expense, both in the assessment and in the collection of the tax.

Further difficulties were pointed out. Supervision over the goods and the retention of the registration mark during the period of transport were considered equally impracticable, since retail dealers and many wholesale dealers bought both in small quantities and in mixed assortments. The heaviest burden of the tax would very probably fall upon the cheaper materials, which constituted the articles of popular consumption. The exemption of hand-woven textiles would, moreover, introduce great confusion, for it was quite impossible to ascertain which part of the dealer's stock was factory-made and which was hand-made. The yarn could easily be transferred from factories to cottage-workers and vice versa. Factory owners, represented by the Moscow Exchange Committee, proposed to replace the tax on textiles by a tax on the yarn from which cloth was produced. As the price of an article was determined by its weight, which in turn depended almost entirely on the quality of the yarn used, the taxation of yarn would really be an automatic ad valorem tax on the article. While cloth varied greatly, the quality of the yarn was always the same and afforded a much more accurate index of the true value of the article. The control of the spinning industry was, moreover, much easier than that of the textile, because it was much more concentrated than the latter.

The bill submitted by the representatives of industry proposed that the check on output be entrusted to the administrative boards of the factory and not to the excise officials. The workmen were paid according to the puds of yarn which they produced, and full in-

⁴⁸ *Promishlennost i Torgovlya*, 1916, No. 36; *Reports (Otcheti) of the Taxation Committee (Nalogovaya Kommissiya) of the Moscow Exchange Committee (Moskovski Birzhevoi Komitet) for 1916*, Moscow, 1917.

formation concerning the amount and quality of the yarn was preserved in the records of the factory. As the workmen themselves were interested in the accuracy of these entries, both employers and employees would make a united effort to avoid any error in the records.

Neither of the foregoing bills, however, was enacted, nor was the bill passed which proposed a tax on electric power used for heating, lighting, industrial, or other technical purposes. Exemption from the tax was allowed only for the electricity used by the Government and certain institutions. The bill provided that the tax should be levied on the basis of kilowatts consumed per hour, and at the rate of 4 copecks for the lighting of private houses, theatres, etc.; 2 copecks for the lighting of factories; 1 copeck for the lighting of streets, squares, gardens, etc.; and $\frac{1}{2}$ copeck for heating, industrial, and other technical purposes.⁴⁹

The question of the reform of the existing direct taxes (land tax, tax on urban property, on commerce and industry, and on income from capital) likewise never passed beyond the stage of discussion in committee.

Though the commission admitted the inadequacy of the rates of the land tax, it came to the conclusion that the local rates weighed much more heavily on the land than the State taxes, and that a general reform of both could only be effected after the process of re-valuing the land had been terminated, a work which had been in progress during the last two decades and was yet far from completion.

As regards the taxation of urban property, the committee made the following remark. While the existing law provided for the taxation of unemployed urban areas at the rate of 5 per cent of their value, this tax was usually evaded by the owners leasing these places for trifling rents after converting them into fruit orchards, or after building on them structures of practically no value. In such cases the tax could be levied only on the basis of the comparatively insignificant income that the property produced, and not on the sale value of the land. The commission advised, therefore, that this defect in the law should be remedied by taxing all property which yielded only a trifling income at the rate of 5 per cent of the market value of the property.

⁴⁹ *Vestnik Finansov*, 1915, No. 40.

In connection with this reform, the still more important question was raised of taxing all urban property simply on the basis of its value and not on the income derived from it. A separate valuation of the site and of the buildings on it was proposed, so that the former should be taxed at a very high rate and the latter at a low rate, in order to stimulate, as the commission explained, the construction of buildings. But this proposal did not meet with general favor, for a separate taxation of site and of buildings was considered practicable only where these respectively belonged to different persons. In Russia, however, almost all buildings belonged to the landowner. The application of this principle of taxation would certainly involve the radical reform of the other direct taxes, as it would be unreasonable to change the principle applied in the taxation of urban property without introducing corresponding amendments in the land tax, the tax on capital and that on commerce and industry.

The suggestion was also considered of extending the house tax to buildings located outside towns and other urban localities. It was pointed out that this tax, if based on some fundamental principle of general application, could be graduated according to the value of the buildings. The revenue produced by this tax would certainly be greatly enhanced, for fully three-fourths of the Russian population resided outside towns. The obligatory valuation of buildings required by the zemstvo fire insurance law would afford all data necessary for their proper classification. Serious objections, however, were raised against the extension of this tax. It was said that a house played an entirely different rôle in a village and in a town. While in a city a house was either a source of revenue or a sign of the taxable capacity of the owner, in a village it was never an income-producing property. Its taxation would mainly be the taxation of an object of prime necessity—a place of residence, or a supplementary tax on land. In the latter case, it would be more direct and effective simply to raise the rate of the land tax.

As regards the tax on commerce and industry, it was proposed to abolish licenses, the charge for which varied according to the classification of the industry. It was stated that the imposition of this tax was based on superficial and often misleading indications, which made it impossible to secure its equitable distribution.

But this reform also was rejected, because the Treasury did not wish to forego the assured receipts that were yielded by the sale of

licenses at the beginning of each year. The official record of the sale of licenses was furthermore the only knowledge that the State had of the commercial and industrial businesses in existence. Licenses also provided the basis for the assessment of local rates by the municipalities, zemstvo, and social institutions, and for the levies made by merchant guilds for charities and educational objects. The abolition of licenses was therefore postponed. After so much discussion, the only change that was actually made in pre-war real taxes, was an increase in their rates. In contrast to the practice of all other countries, the enactment of an income tax was not accompanied by any radical change in the existing system of direct taxation.⁵⁰

⁵⁰ J. Kulisher, *op. cit.*, p. 50.

CHAPTER V

REVENUE AND EXPENDITURE IN 1917

THE year 1917 comprises the greatest events in Russian history. Two consecutive Revolutions brought Russia's financial system to utter disaster. The first revolution in March dealt a severe blow to the country's finances, but it was reserved to the Bolshevik Government, which was enthroned in the same year by the second (October) revolution, to achieve complete financial ruin.

Since the scope of this work is limited to a description of Russian State finance before the Bolshevik upheaval, which marks the termination of Russia's participation in the War, the following survey will be confined to the period ending in October 1917.

The period from January to October 1917 may be divided for the purpose of this work, into two parts: (1) from January to March, during which time war conditions prevailed of practically the same character as in 1915 and 1916; and (2) from March to October, during which time the finances of the State were under the additional influence of the Revolution. This division of the period will greatly facilitate an examination of Russian State finance during 1917.

SECTION 1. FINANCIAL STATEMENT FOR 1917.

The Finance Bill for 1917 was the last financial project introduced by the Government in the legislative assemblies. Though it was never enacted into law, it well merits a brief analysis.

The public revenue was estimated as follows:¹

	<i>Rubles</i>
Ordinary Revenue	3,998,631,714
Extraordinary Revenue	6,000,000
Total	4,004,631,714

¹ Estimate of revenue and expenditure for 1917 and explanatory Memorandum (*Zapiska*) of the Minister of Finance.

The expenditure to be authorized amounted to:

	<i>Rubles</i>
Ordinary Expenditure	3,734,657,086
Extraordinary Expenditure	343,159,985
Total	4,077,817,071

The anticipated deficit, amounting to 73,185,357 rubles, was expected to be covered by loans. The ordinary revenue for 1917 was estimated at 966,482,396 rubles in excess of that estimated for 1916. This unprecedented increase was due to the fact that in framing the estimates for 1917 the Government had before it the surplus in the actual receipts for 1916, which had exceeded the estimates of that year by a substantial amount (3,974.5 million rubles of actual receipts as against 3,032 million rubles estimated).

The forecasts of the *Financial Statement* of 1917 approximated very closely the actual receipts of 1916, notwithstanding the fact that certain new taxes became effective in 1917 (income tax, war profits tax, etc.) and were estimated to yield 393.6 million rubles. If this sum is deducted from the estimated revenue of 1917, we obtain a figure of 3,605.0 million rubles, which is actually less than the actual receipts of 1916. This was because a decrease in the receipts was considered inevitable, in consequence of the enemy occupation of new territory since 1916.

The principal changes made in the estimates of ordinary revenue for 1917, in comparison with the estimates for 1916, were as follows: Direct taxes, exclusive of the receipts from the income tax and the war profits tax, were estimated at 381,057,000 rubles, or 21,383,000 rubles more than the estimates of 1916. This was due to an increase of 28,044,000 rubles anticipated in the receipts from the tax on commerce and industry, partially offset by a decrease of 4,806,000 rubles anticipated in the revenue from the land tax and from the tax on urban property, and a decrease of 1,815,000 rubles in the receipts from the tax on income from capital. Indirect taxes were estimated at 899,469,000 rubles, an increase of 85,740,000 rubles over the estimates of 1916 (813,729,000 rubles). The principal items in this increase were an increase in customs duties of 106,975,000 rubles, and in the tobacco excise of 12,950,000 rubles. The following items were, on the contrary, expected to show decreases: sugar, 18,080,000

rubles; matches, 7,501,000 rubles, and petroleum, 6,813,000 rubles. The revenue from duties was estimated at 433,196,000 rubles or 10,405,000 rubles less than in 1916 (443,601,000 rubles). The following specific decreases were anticipated: in the revenue from the provisional duty on the transport of goods, a decrease of 89,900,000 rubles; and from miscellaneous duties, of 3,377,000 rubles.

The aggregate increase was distributed as follows: 25,600,000 rubles from the temporary tax on the transport of passengers, luggage, and goods conveyed in passenger trains; 13,200,000 rubles from the 15 per cent Imperial duty on passenger rates and freights; 12,800,000 rubles from the special temporary duty on the transport of cotton; 17,752,000 rubles from stamp duties, court fees, and registration fees; and 14,020,000 rubles from duties on the transfer of property.

Royalties were expected to yield 279,532,000 rubles or 27,856,000 rubles more than had been estimated for 1916 (251,676,000 rubles). The principal items of increase were: 19,296,000 rubles in the postal, and 15,100,000 rubles in the telegraph and telephone revenues. Decreases, on the other hand, were anticipated in the following items: 4,760,000 rubles in the revenue from the Mint; 1,760,000 rubles in the revenue from the State sale of alcohol, and 20,000 rubles in the mining revenue.

Income from State Property and Funds was estimated to exceed the sum shown in the estimates of 1916 by 414,700,000 rubles. The major part of this increase (300,701,000 rubles) was attributed to the revenue from railways, in view of the anticipated growth in the passenger traffic and in the transport of freight by rail (208 million rubles), and of the pending increase in the tariffs for the transport of goods by express and freight. This, which was to become effective on the 1st January 1917, was expected to yield 92 million rubles. The increased revenue from forests, as a result of more efficient exploitation, was estimated at 15,316,000 rubles.

The ordinary expenditure for 1917, estimated at 3,734,657 rubles exceeded the estimates of 1916 (3,287,918,000 rubles) by 446,739,000 rubles, or 13.6 per cent. This increase was due chiefly to the larger credits voted for the Ministry of Transport. The greater part of these (276,069,000 rubles) was destined for the State railways, whose facilities had to be expanded to meet the growing traffic and whose operating expenses had risen in consequence of the increased

cost of material and of the higher salaries of the employees. The same reason accounts for the increased credits voted for the Ministry of the Interior in respect of the postal, telegraph, and telephone services. Current expenses of the department, repair of telegraph lines, and transport of mail necessitated an increase of 45,086,000 rubles over the estimates for 1916. The aggregate increase in the credits for the department amounted to 50,311,000 rubles. There were similar increases in the estimate for the Ministry of Finance, amounting to 27,906,000 rubles, of which the greater part (16 million rubles) was needed to discharge certain special liabilities devolving on the Treasury: pensions, bonuses, and subsidies. The total increase in the estimates for the other departments amounted to 55,788,000 rubles including 18,588,000 rubles for the Ministry of Education; 12,787,000 rubles for the Ministry of Justice; 11,544,000 rubles for the Ministry of Commerce and Industry; and 6,850,000 rubles for the Department of Agriculture.

Extraordinary expenditure included 54,904,000 rubles for the economic and strategic services of the War Department, 284,196,000 rubles for the construction of railways, 862,000 rubles for payments to railway companies, and 3,198,000 rubles for the construction and improvement of harbors. The greater part of the above expenditure of the War Department was intended for the construction of new gun and munition factories.

This short summary gives a favorable impression of the state of the public finances in 1917, but a closer analysis will substantially modify our opinion of many of its optimistic features.

It is necessary to observe first that approximately 500 million rubles of the public revenue consisted of merely nominal receipts, the product of war-time conditions, such as receipts from State railways for the transport of troops and military consignments, charged to the war fund account, from customs duties collected on goods imported by the Government, and from the State Bank in respect of profits on the discount of short-term Treasury bills. Such receipts would necessarily disappear after the War and should, therefore, be deducted from the total of the general revenue for 1917, if a knowledge of the real condition of the State finances is desired.

If this deduction is made, there remains a sum of 3,500 million rubles representing the permanent revenue of the Government, a

figure which equals that of the revenue in 1913. This calculation, furthermore, establishes the fact that it required four years to compensate the budget for the loss resulting from the abolition of the State Monopoly of Spirits, and to restore it, by the increase of existing taxes and by new taxation, to its former proportions. The entire war expenditure and the deficit on the ordinary budgets of the preceding three years had had to be covered by loans and Treasury bills.

In order correctly to appreciate the budget of 1917, which was balanced at 4,000 million rubles, the depreciation in the value of the national currency should also be taken into account.

The importance of this consideration may be inferred from the statistics relating to the income tax. This tax, though made effective only in 1917, was stated in 1910, when first drafted, to be capable of yielding 65 million rubles. The estimates of 1917 provided for a revenue from this source of 130 million rubles; but the press, which voiced the opinion of financial experts, raised this figure to 200 million rubles, or three times the amount of the revenue initially expected. This increase was due chiefly to the raising of the rate of the tax and to the lowering of the limit of exemption. But next in importance to this, the Memorandum of the Ministry of Finance referred to "the increased income of a great part of the population, which had been brought about by the rise in the price of commodities and of labor, and by the expansion of the profits of industrial and commercial enterprises."

The marked improvement in the revenue from the tax on commerce and industry was likewise due to the depreciation of the currency. Though this depreciation had no direct bearing on the receipts from indirect taxes, it certainly greatly facilitated the increase by the Financial Department of the rate of all excise duties. In the general rise of prices, the consumer was unable to detect the part played by this fiscal measure; this could scarcely have happened if prices had followed a more or less uniform level.

But after allowing for all these considerations, it must be admitted that the financial situation of Russia at the beginning of 1917, though grave, was not worse than that of most belligerent countries. The ordinary budget was balanced without a deficit, in spite of the vastly increased payments of interest on the National Debt. The still unutilized sources of taxation inspired the hope that it would be

possible to balance even the entire budget of 1917. These hopes, however, were frustrated by the Revolution which occurred in the last days of February 1917.

SECTION 2. PROGRESSIVE GROWTH OF PUBLIC EXPENDITURE AFTER THE REVOLUTION

The Revolution, which began in the last days of February 1917 and which exerted such a far-reaching influence on all aspects of national life, necessarily entailed profound changes in the State finances. These changes manifested themselves in various ways.

All items of the national expenditure showed an unparalleled increase. As has already been pointed out, expenditure in Russia, as in other belligerent countries, expanded rapidly after the outbreak of war; this larger expenditure was the natural result of the War, which raised prices by diminishing national production; it was also the consequence of the methods adopted to finance the War. These methods, common to Russia and other belligerent countries, consisted chiefly of monetary and credit inflation,² but the rate of increase of expenditure during the first three years of the War was insignificant as compared with the rate of increase after the Revolution.

The table below enables a comparison to be made of the expenditure on civil services during the years referred to:³

<i>Departments</i>	<i>1913</i>	<i>1916</i>	<i>Increase for 3 years</i>	<i>1917</i>	<i>Increase for 1 year</i>
			(millions of rubles)		
Posts and Telegraph	80	154	+ 74	364	+210
Justice (general)	54	76	+ 22	178	+102
Justice (prisons)	38	42	+ 4	64	+ 22
Public Education	143	227	+ 84	357	+130
Commerce and Industry	64	180	+116	487	+307
Agriculture	136	268	+132	380	+112
State Railways	594	1,367	+773	3,331	+1,964

It should be noted that this table was compiled in the middle of 1917 and that subsequent to that date additions to the salaries of civil servants increased still further the expenditure under this head.

² A. Michelson, *Le problème des finances publiques après la guerre*, Paris, 1919, pp. 23 and 136.

³ G. Dementiev, *op. cit.*, *Vestnik Finansov*, 1917, No. 41, p. 437.

What is the explanation of the unprecedented increase in the public expenditure which occurred at this time? From the first days of the revolution, all classes of the population began to manifest this long pent-up craving for a higher standard of living. Government employees could not stand aside from this general movement, and the Government, weakened by the Revolution, was unable to offer sufficient resistance to this pressure, or to prevent unwarranted demands being made upon the Treasury. Two instances will suffice to make the position clear. After much discussion and negotiation, the Government was obliged, on two successive occasions, to authorize increases in the salaries of the employees of the State railways, entailing additional expenditure of 1,200 million rubles. The salaries of the personnel of the post and telegraph services were likewise increased by 320 million rubles. Besides raising the salaries of State employees, the Provisional Government inaugurated several very important reforms, most of which imposed an additional burden upon the Treasury. The fact that the numbers of the personnel employed by the State likewise expanded very rapidly, as is usual during revolutionary periods, also contributed to produce the extraordinary increase in public expenditure. This expansion of numbers was very marked in all government enterprises, *e.g.*, State railways, post, and telegraph services, etc.

The public expenditure was further augmented as a result of the price of labor and material. All government contracts were revised. It is, in fact, difficult to ascertain the full extent to which the expenditure was affected by this revision. It will suffice to say that the aggregate value of government contracts concluded by the War Department for military purposes attained during the single year 1916 the sum of 4,300 million rubles. Basing his calculations on the increase in the price of material and labor, which by the middle of 1917 reached 400 per cent, M. Dementiev estimated the additional expenditure resulting from the above revisions at several thousand million rubles.

The war expenditure not included in the ordinary budget increased to an even greater extent. A series of unsuccessful military operations on the western front involved simultaneously the retreat of the army and larger credits to meet the resulting situation. In addition to the loss of territory with valuable fields, forests, towns and villages, industrial plant, natural wealth in the soil and in the

working population, every retreat meant either the relinquishment or the destruction of vast military stores, which had to be replaced at great cost by new purchases. These losses produced an effect almost as pronounced upon the home market as upon the Treasury. Retreat meant also heavy expenditure on the requisition of the supplies necessary for the retiring army, for the support of refugees and for compensation for destroyed property. The repeated requisition of articles of prime necessity seriously affected the productive forces of the country. The full extent of these losses to the State could have been ascertained only after the lapse of many months.

It became increasingly expensive to supply the army with the necessaries of life. M. Dementiev⁴ observed that "the rise in the price of grain, which had attained 100 per cent since the Revolution, involved the Treasury in new expenditures on a very large scale. The increased price of grain entailed a supplementary expenditure of at least a thousand million rubles per year, according to the preliminary accounts of the Principal Military Supply Department. Since grain was purchased chiefly during the last three months of the year, after the crops had been harvested, the greater part of the expenditure remained yet to be incurred in September and the remaining months of 1917."

Allowances for the maintenance of soldiers' families underwent a similar increase. These allowances, which, prior to the Revolution, included a monthly grant of one pud and 28 pounds of flour and 10 pounds of groats per head, now represented an increased cost of 6 rubles per month per allowance. Thirty-five million allowances were distributed monthly and imposed upon the Treasury a new burden of at least 210 million rubles per month.

It is interesting to examine, in this connection, the demands made by the beneficiaries of this system in the middle of 1917; these were discussed by a special committee of the Ministry of the Interior in conjunction with representatives of soldiers' wives, and with delegates from the Soviets of Workmen and Soldiers and other revolutionary organizations. They are quoted and commented upon by M. Dementiev as follows: "It would seem that during the strenuous times of war, especially of the present World War, which entails such enormous expenditures, allowances (*païok*) should be restricted

⁴ G. Dementiev, *op. cit.*, *Vestnik Finansov*, 1917, No. 41, p. 435.

to the absolute necessities of life: flour, meat, salt, and vegetable oil. These allowances, which had a value at the beginning of the War of 6 rubles per month, have increased since the Revolution to a sum varying between 14 and 15 rubles per month. The expenditure, during 1917, of the Treasury for pensions paid in lieu of allowances, was estimated about 3,000 million rubles. It was also proposed to increase the number of beneficiaries so as to include various relatives of soldiers and to add a sum to defray their rent.

“Instead of giving the minimum assistance, as was originally intended, the scale of allowances was transformed to cover the full maintenance of the families and relatives of soldiers at the expense of the Treasury. If the new scale of allowances had been adopted, the expenditure of the Treasury would have risen from 3 to 11 thousand million rubles per annum.” These demands, however, were finally rejected, but they are interesting as an illustration of the manner in which national expenditure developed after the Revolution. The increase of the pay of soldiers and sailors, which was promptly passed, was estimated to impose upon the Treasury for the year 1917 an additional burden of 500 million rubles.

The means at the disposal of the Government were obviously inadequate to cover the continually increasing expenditure. The Treasury's embarrassment was all the greater because both the receipts from taxes and the efficiency of tax collection had been greatly impaired since the Revolution. The Provisional Government was thus confronted with a serious dilemma. It was obliged either to find new sources of revenue without delay or to resort to inflation, which meant a new rise in prices and increased expenditure. It resolved to pursue the first alternative and to impose the maximum taxation possible. But most of the projected reforms never reached the Statute Book and those which were enacted were not made effective until the last days of the Provisional Government, on the eve of the Bolshevik Revolution. In the meantime, the only resource was the issue of paper money, a detailed account of which process will be found in the monograph of this volume devoted to the analysis of the influence of the War on Russian currency.

SECTION 3. TAXATION REFORMS AND FISCAL PROPOSALS PUT
FORWARD AFTER THE FEBRUARY REVOLUTION.

There is a widespread opinion that the February Revolution effected far-reaching reforms in the financial system of the country. It is, however, far from correct. Yet, if all the changes in the financial system that were proposed after the Revolution had been achieved, an entirely new fiscal order would have been established. But only very few of the proposed measures were enacted and the results were necessarily limited to the several changes which these reforms effected in the existing taxes. A comparison of the amendments that were being considered by the Financial Department during the War down to the outbreak of the Revolution, with the effective changes that were introduced by the Revolution, will reveal that there were no great radical differences between the policy of the one and the actual achievements of the other. It must also be noted that at the outbreak of the Revolution the Ministry of Finance was busy elaborating various plans of financial reform. A difference of principle, however, can be detected. During the two and a half years of war immediately preceding the Revolution, very few measures had been taken to increase the public revenue beyond the enactment of the income tax, but after the Revolution there existed no hesitation or doubt as to the Government's ability to accomplish all that was necessary. Many measures that had formerly met with indomitable opposition from the Conservative party in the Duma, were now enacted without debate. The increase in expenditure implied either inflation or higher taxes, and the latter policy was very courageously adopted. If, therefore, a few measures only were enacted, the cause must be sought not in the intentions of the Provisional Government but in its short duration, for it did not remain in power long enough to accomplish even the greater part of its legislative program.

i. *Reforms in Direct Taxation.*

Among the various reforms drafted and enacted during this period we shall consider first the reforms in direct taxation which included the reforms of the income tax and the war profits tax, the enactment of an extraordinary income tax levy, and the bills providing for the general property tax and a radical reform of the death duties. These last two, however, were never passed into law.

a. *Reform of the Income Tax.*

As previously stated, the income tax was enacted on the 6th April 1916 and put into force on the 1st January 1917. The 30th April was the last date on which declarations of income might be filed in Petrograd. But already on the 6th April 1917 a reform of the tax was under discussion. It is evident that there had been inadequate time to obtain the necessary experience in the collection of the tax. The rapidity with which the reform was inaugurated was due to the revolutionary conditions, and was dictated as much by technical reasons as by the desire to increase the receipts of the Treasury.

The limit of exemption of 850 rubles⁵ prescribed by the law, had now become so low, owing to the depreciation of the ruble, that it became technically impossible to collect the tax, for millions of taxpayers had become subject to its provisions. It was accordingly decided to raise the limit of exemption to 1,000 rubles, the figure originally proposed by the Duma; but the continuous depreciation of the ruble, after the 2nd June 1917, rendered the benefits expected from this amendment altogether illusory.

The desire to increase the revenue induced the Government to introduce a new scale of rates, which prescribed a tax of 30½ per cent on incomes exceeding 400,000 rubles. This rate, which involved as regards the more important incomes an increase of 250 per cent over the rates laid down by the Law of the 6th April 1916, must be considered excessive. It fell most heavily on joint-stock companies,⁶ many of which earned more than 400,000 rubles and were consequently subject to the highest rate of the tax. If the income of a joint-stock company amounted to 12 per cent of its capital stock, the tax on the company's income, after allowing for the 3 per cent exemption granted by the law, was at the rate of 22½ per cent. Owing to the deductions from profits required for the various purposes of the company, such as reserve fund, an income of 12 per cent on

⁵ J. Kulisher, *Predstoyashchaya reforma podokhodnogo naloga* (*The Pending Reform of the Income Tax*), in *Promishlennost i Torgovlya*, 1917, Nos. 17-18, pp. 336 sqq.

⁶ *Ibid.*, *Promishlennost i Torgovlya*, Nos. 20-21, pp. 368 sqq.; Professor P. Hensel, *Novi poryadok platezha podokhodnogo naloga* (*New Methods of Collecting the Income Tax*) in *Torgovo-Promishlennaya Gazeta*, 1917, No. 131. The original text of the Act in *Sobranie uzakoneni i rasporiyazheni pravitelstva* (*Collection of Enactments of the Government*), 12th June 1917.

authorized capital meant a dividend not exceeding 6 per cent. It should also be remembered that the shareholders paid additionally an individual income tax on the same dividends. The total tax paid on this income would ultimately (where large private incomes were concerned) amount to $52\frac{1}{2}$ per cent ($30 + 22\frac{1}{2}$ per cent). If the dividends paid represented a greater percentage of profit on authorized capital, the taxation of the income rose accordingly and reached as much as 55 to 60 per cent. This rate was obviously excessive, especially if one takes into account the supplementary extraordinary income tax levy which will be dealt with later. Theoretically, the total income of the taxpayer might be exhausted by the tax.

b. *Enactment of an Extraordinary Income Tax Levy.*

Owing to its urgent need of funds, the Government refused to be satisfied with the above increases in the rates of the income tax. In the revolutionary circumstances in which the Provisional Government found itself, it was absolutely imperative to find new sources of revenue, and these could be sought only in the direct taxation of the wealthier classes.

Professor V. Tverdokhlebov remarked very truly that "a financial advantage could be obtained only through the indirect taxation or the monopolization of articles, not of prime necessity but of general consumption, such as sugar, tobacco, and wine (made from grapes), and through an increase of indirect taxes such as customs duties, duties on entertainments, etc. The greater part of the increase in wages was being spent in gratifying new tastes and generally not in satisfying essential needs. Now, perhaps, for the first time in Russian history, indirect taxes were justified, but the socialistic parties had always disapproved of them in principle and fought against them in practice. It would, therefore, be difficult to expect them now, when in power, to apply them on any extensive scale."⁷

⁷ Professor V. Tverdokhlebov, *Novie "revolutsionnie" nalogi (The New "Revolutionary" Taxes)*, in *Torgovo-Promishlennaya Gazeta*, 1917, No. 117.

In this connection, the financial resolution of the All-Russian Congress of Deputies of Workmen and of Soldiers' Soviets of the 26th June 1917 is worth quoting because it depicts the sentiments of the "revolutionary democracy." The Congress resolved:

(a) That the Provisional Government should immediately proceed to enact

"But the issue had to be faced, for there was no possibility of evading the question of monopolies. It was decided, however, in the first instance to increase direct taxes to the maximum. The political, or rather ethical, motive is the principal reason for deciding upon the increase of direct taxes; it is offered as a justification for resorting to less popular financial measures. The Government says to the peasants and workmen: 'We shall take everything that is possible from the rich, but you will have to pay also.'"

This really "demagogic" motive was the chief reason for the introduction of the extraordinary income tax levy. It should be noted that the majority of the Provisional Government saw very clearly that it was impracticable, but the impulsive spirit of the revolutionary period compelled the Government to sanction the measure. The most effective argument for the introduction of this tax was the idea, very popular among representatives of the Soviets of Workmen, Soldiers, and Peasants, of confiscating one-fifth of all private property for the benefit of the Treasury. It was obvious to every thoughtful person that had such a measure been enacted it would have involved the entire national economy in a vast catastrophe, and large portions of the population in ruin. This measure of confiscation, moreover, would scarcely have given to the Treasury the liquid funds it needed.

In order to escape the criticism of having acted very precipitately and to obviate the necessity of enacting such a dangerous measure, Professor Hensel proposed to obtain the necessary funds from the wealthy classes by floating an obligatory loan of 10,000 million rubles. The idea of floating an obligatory loan apportioned among the population on the basis of the income tax declarations, or upon a series of reforms in the system of taxation and all measures necessary for the suppression of the further issue of paper money.

(b) That the measures enacted by the Provisional Government for the reform of the income tax and of the war profits tax should be considered only the first steps in the general reform of the entire system of taxation.

(c) That a high single tax should be immediately enacted to provide the Government with a source of revenue for covering the extraordinary expenditure.

(d) That the Provisional Government should radically reform the scale of death duties, without resorting to indirect taxation of articles of general consumption and should impose a tax on unearned increments and on articles of luxury.

the basis of the combined rates of the income tax, the urban property tax, and the tax on commerce and industry, multiplied from 500 to 800 per cent, was defended by Professor Hensel both in the press and in a series of Financial Committee meetings.⁸ The proposal, however, met with many objections. It was pointed out, first of all, that the success of the loan was very doubtful. If applied in its real sense, as a confiscation of property, it would administer an irreparable blow to commerce and industry by diminishing both its invested capital and production. Many enterprises would be forced to discontinue their work altogether, others would be placed in the awkward position of not being able to liquidate enough capital to pay their subscription to the loan, for a great part of the wealth of commercial and industrial enterprises is invested in real property, machinery and securities. Should, however, the payment of the loan be authorized in securities or other financial obligations, the purpose of the measure would fail, for the exchange of one security for another would merely be a bookkeeping operation. The Treasury, furthermore, would be able to finance the loan only by the issue of paper money, the very measure that the loan was intended to prevent. Thus the payment of interest on the obligatory loan would become merely an additional burden on the Treasury.

Preference was, therefore, given to the extraordinary income tax levy, though this measure also met with many objections. The majority of the experts who were invited to participate in the conference convened by the Government, accepted the measure reluctantly. They considered it a dangerous experiment, in view of the already enacted increase of 30 per cent on the ordinary income tax, to raise the rate still higher, so as to make the total tax 60 per cent of the income. They believed that too high a rate would not only jeopardize the receipts of the ordinary tax, which was based entirely upon the coöperation and good will of the population, but it would probably

⁸ Professor P. Hensel, *K voprosu ob edinovremennom naloge na imushchie klassi* (*The Income Tax Levy on Proprietary Classes*) in *Vestnik Finansov*, 1917, Nos. 19 and 20. The same idea was defended by the author in his earlier articles, although in a less drastic manner; cf. *Russkaya Vedomosti* (*Russian Chronicle*) 2nd October 1915, No. 225 and *Finansovaya Reforma Rossii* (*The Reform of Finance in Russia*), Vol. III, Moscow, 1916; also Professor Silin, *Prinuditel'nyi zaem* (*The Compulsory Loan*), in *Promishlennost i Torgovlya*, 1917, Nos. 22-23, p. 397.

defeat itself by provoking the taxpayers to refuse to make the necessary declaration or inducing them to conceal the real state of their incomes, especially in Russia, where the population had not had experience of this form of taxation.

It was also remarked that the real taxes in Russia amounted already to about 22 per cent of income (Imperial taxes and local rates together). If the real taxes were added to the income tax, the aggregate would be 52 per cent, and the taxation on industries was still greater, owing to the tax on excess profits. Joint-stock companies whose average income exceeded 400,000 rubles were required to pay 30 per cent of their profits less the equivalent of 3 per cent of their authorized capital, or a net proportion of 20 to 25 per cent, in addition to the tax paid by the individual shareholders. The entire income of an individual might thus be exhausted by taxation, and in the case of revenue derived from shares, the tax might even exceed the actual income. In order to prevent this eventuality, it was enacted that should the State and local taxes exceed 90 per cent of the income the extraordinary levy on income was to be reduced so as to bring the total down to this maximum. It was considered possible to increase taxation up to this maximum of 90 per cent, though such an extraordinarily high limit existed in no other country. Allusions were made to the French Revolution of 1789, at which time no attention was paid to the fact that taxation not only consumed entire incomes but also extended to part of the invested capital. The almost total absence, at that period, of great industries and of joint-stock companies was not taken into account.⁹

The tax was meant simply as a supplement to the existing income tax and conformed both to its general principles and its rates except that the taxation of income not derived from real property was lighter in the supplementary levy than in the original tax. Incomes below 10,000 rubles were exempt, and those from 10,000 to 50,000 rubles were taxed at half the rate if the revenue was derived from salaries or professional occupations. In order to prevent taxation from exceeding the total income of the taxpayer, Clause I, paragraph 4, prescribed that "where the amount of the income tax levy, together with the State taxes due for 1917 (land tax, tax on urban

⁹ J. Kulisher, *Nashe oblozhenie v period 1914-1917 goda* (Our Taxation during 1914-1917), in *Ekonomist* (The Economist), 1922, No. 2, p. 153.

property, tax on commerce and industry, excess profits tax) and the local rates (zemstvo, municipal, and communal rates [*volostnie sbori*]) exceeds 90 per cent of the total income taxable in 1917, the sum of the extraordinary levy on income shall be reduced so that the total taxation does not exceed 90 per cent of the income." The extraordinary levy on income was payable at the end of 1917 and at the beginning of 1918 on the same basis as the ordinary income tax for 1917, that is to say, on the basis of the average income received in 1916. This provision placed some of the taxpayers in an extremely critical situation, as the financial position of several classes of the population had been considerably disturbed by the Revolution of 1917 and might become even worse in 1918.

An additional difficulty developed as a consequence of the taxation of corporate bodies. The double taxation of incomes of joint-stock companies, which had already been established by the ordinary income tax, was now repeated. The minimum exemption of 10 per cent guaranteed to the taxpayer was much too low to serve as a stimulus to increased production.¹⁰ What inducement was there to an enterprise to strive to expand its business and to improve its organization and technical equipment, if 90 per cent of its profits were to be confiscated by the State?

In spite of these objections, the extraordinary levy on income was enacted on the 12th June 1917.

c. Reform of the War Profits Tax.

The taxation of war profits, or to give the correct title, the taxation "of the excess profits of commercial and industrial enterprises and of increased income derived from professions" provoked, however, very pronounced opposition owing to its very imperfect structure and to certain exclusive privileges conferred on several groups of taxpayers.¹¹ A revision of the tax was consequently under discussion in the last session of the Duma prior to the Revolution. But the Duma had insufficient time to perfect the measure, and it was

¹⁰ *Promishlennost i novie nalogi* (Industry and New Taxes), in *Promishlennost i Torgovlya*, Nos. 24-25, pp. 1-10.

¹¹ See *supra*, p. 178 *sqq.*; J. Kulisher, *Zakon 12 yunya o naloge na voennuyu pribil* (The War Profit Tax Law of the 12th June 1917), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 157; by the same author, *Nalog na voennuyu pribil* (War Profits Tax), in *Vestnik Finansov*, 1917, Nos. 32 and 33.

accordingly introduced for discussion in the Financial Reform Conference, which proposed several very important amendments. The measure, in its final form, was promulgated on the 12th June 1917 by the Provisional Government as a law "for the reform of the method of assessing and collecting the provisional tax on excess profits."

The general structure of the tax remained unaltered. Industrial enterprises alone were taxed in proportion as their profits exceeded their average pre-war profits. The difference in the method of collecting taxes from enterprises subject to public audit and those not subject to public audit was preserved. In the case of the former, taxation was based upon a comparison of their actual current profits with the profits which they had earned in previous years. Whereas in the case of the latter, the assessment was based on the comparison of their fictitious profits calculated by responsible officials from data furnished by the turnover of enterprises and the scale of *normal profits*.

The rates of the tax on war profits of enterprises subject to public audit rose in proportion to the percentage that the profits bore to the capital, as in the case of the tax on commerce and industry, and not simply in proportion to the absolute profits. For enterprises not subject to public audit, the rates of tax were based on the absolute amount of the excess profits. The new law introduced in this case also the principle of progressive taxation, instead of the former uniform rate of 20 per cent of the excess. The following rates were established: excess profits under 1,000 rubles were taxed at 30 per cent; from 1,000 to 5,000 rubles at 34 per cent; from 5,000 to 10,000 rubles at 38 per cent, etc. The object of the new law was obviously to increase the revenue.

The former tax of 1916 was levied on enterprises subject to public audit at the rate of 20 to 40 per cent, and on other enterprises at the rate of 20 per cent. The new law raised the latter rate to 30 per cent if the excess profits amounted to less than 1,000 rubles, and to as much as 60 per cent if the excess exceeded 100,000 rubles. The minimum rate for enterprises subject to public audit whose total profits amounted to 6 per cent of their capital was 40 per cent of the excess profits. If the total profits amounted to $9\frac{1}{2}$ per cent of the capital, the tax was 50 per cent; if 13 per cent, the tax was 60 per cent; if 16 per cent, the tax was 70 per cent; and finally, if the

total profits exceeded 20 per cent of the capital, the tax was 80 per cent of the excess profits.

In conformity with the foregoing rates the maximum percentage of taxation had also to be raised. Whereas formerly the aggregate taxation, consisting of the war profits tax, the income tax, the tax on commerce and industry, and other taxes, was limited to 50 per cent of the total income of an enterprise, the new act fixed "the maximum of the total taxation of enterprises subject to public audit at 90 per cent" (Clause 4). These enterprises, in other words, were guaranteed 10 per cent of their profits.

It was originally intended to follow the example of the British Excess Profits Tax by enacting an absolute limitation of profits for enterprises working for national defense, and to make 80 per cent of their profits payable directly to the Treasury. But this plan was abandoned and the only change made in the law provided for certain technical improvements in the character of the tax and for an increase in the rates. The most important of the technical improvements was the taxation of middlemen who had formerly been exempt. Owing to this exemption and the absence of information concerning the profits of middlemen prior to 1917, they were taxed on the basis of their total income and not on the basis of excess profits. The majority of the middlemen, furthermore, had only begun their activities during the War and had consequently enriched themselves chiefly from transactions connected with supplies, which they had been able to negotiate largely through the influence of acquaintances or relations who sold them government contracts. The tax was applied only to the profits made in 1916, and the vast sums earned by these agents in the preceding year and a half of the War remained untaxed. The Law of the 12th June 1917 extended the provisions of the measure to the highest officials of joint-stock companies, by taxing the difference between their pre-war and current salaries.¹²

The total annual revenue anticipated by the Treasury from all three taxes was 1,000 million rubles. This figure, however, has only a theoretical value, for the situation was so quickly altered by the Bolshevik Revolution, that none of these taxes had time to yield any substantial revenue to the Treasury. But the author of this work

¹² See the text of the law as amended by that of the 12th June 1917, *Torgovo-Promishlennaya Gazeta*, the 2nd July 1917, No. 139.

does not believe that, even if the Revolution had not occurred, the above measures could, without radical alteration, have fulfilled the expectations of their authors. In the form in which they were enacted, they were illusory and, as an expert said, were "built on sand."

ii. *Proposals for New Direct Taxation.*

a. *General Property Tax.*¹³

In addition to the enactment of the above reforms, several entirely new direct taxes were projected, especially a general property tax, which aimed at the additional imposition of the wealthier classes of the population that owned property either actually producing income or capable of doing so. The property tax introduced the principle of discrimination between the character of different incomes, which was absent in the ordinary income tax. It was, in fact, intended to supplement the income tax. It was decided in 1917, however, to postpone the further consideration of this property tax until the following year (1918), and to enact at once, in its stead, the non-recurrent income tax levy. This tax was to be levied upon private persons as well as upon corporate bodies, but in order to avoid double taxation, a stipulated part of the capital of the latter, for example 50 per cent, was to be exempt. Otherwise the general structure of the tax was copied from that of the income tax. It provided a non-taxable minimum, its rates were progressive, and it introduced several concessions to taxpayers in financial distress.

The non-taxable minimum was advocated in order to encourage thrift among the working population and because of the extreme difficulty of valuing the almost innumerable small properties. The limit of exemption was fixed at 10,000 rubles, which had the effect of relieving lands owned by peasants and cottage industries from taxation. The rate of the tax varied from 0.1 to 0.5 per cent (the latter rate being levied upon the real or market value of property in excess of one million rubles). The value of the property was assessed upon the combined basis of its sale price and of the amount at which it was insured. In the absence of these data, capitalized income was to be accepted as the basis of the assessment.

¹³ J. Kulisher, *Vvedenie poimushchestvennago naloga* (*Introduction of the Property Tax*), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 139.

*b. Projected Reform of the Death Duties.*¹⁴

The bill providing for the enactment of death duties had been completely drafted at the moment of the Bolshevik Revolution. Though death duties had previously existed in Russia, the proposed reform was so far-reaching that the object of the bill was really to introduce an entirely new form of tax.

The old system of death duties (*cf.* Chapter I) was very primitive. They were entitled "Duties on the free transfer of property" and their rates were proportional and not progressive. They were fixed irrespective of the value of the succession and varied only according to the degree of relationship. They were assessed by the courts, not by the tax officials, on the basis of the legal valuation, which was much inferior to the real value of the inherited property.

When the reform was under discussion, two methods of imposing death duties were considered. In the continental countries of Europe, the principle of progressive taxation was applied only to the value of the several legacies or successions, the rate varying according to the degree of relationship between the heirs and the deceased. In Great Britain, the principle of progressive rates was applied to the total estate of the deceased and the rate of death duty depended not on the amount of the legacy, or succession, but on the total value of the estate of which the legacy or succession formed part. The latter method was adopted in Russia, as it seemed the only way of taxing the entire property passing on death and of securing to the Treasury sufficient revenue from legacies and successions. Death duties were thus given the character of a property tax levied when property passes on the decease of the owner. The taxation of the portions inherited by distant relatives would not alone constitute an important source of revenue, for the principal heirs were nearly always the nearest relatives.

A supplementary tax varying according to the degree of the relationship and modelled on the British Legacy and Succession Duties was also proposed in order to secure a more satisfactory transition

¹⁴ J. Kulisher, *Reforma v oblozhenii nasledstva* (*The New System of Death Duties*), in *Promishlennost i Torgovlya*, 1917, Nos. 26-27; also by the same author, *Novaya proektiruemaya sistema oblozheniya nasledstva* (*The New Scheme for the Revision of the System of Death Duties*), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 120.

from the old to the new system and to avoid the violent reactions frequently incidental to radical changes.

Both taxes were intended to be levied simultaneously upon the shares inherited by each heir, provided the principles of each were applicable in each case. The first tax was assessed on the value of the entire estate and the second on the value of each particular legacy. This procedure enabled the Government to escape the difficulties involved in the direct taxation of estates prior to their distribution among the heirs.

In addition to the reform of the death duties, taxes on gifts were also contemplated. Though not intended to equal the rate of the death duties, they were made sufficiently heavy to prevent the evasion of the former. All gifts made by the testator within a short period of his death, for example one year, were taken into account in fixing the rate of death duties to be enforced in the particular case, and the difference between the tax on gifts and the death duty that would have applied had the gift not been made was imposed as a supplementary tax.

Several other measures, directly connected with death duties, were debated but not included in the bill. A special duty on property in mortmain was advocated. By this term was meant property that was owned by churches, monasteries, or other institutions of a permanent character, and therefore was not subject to the provisions of the civil code. As the State revenue was deprived, in respect of such property, of the proceeds of a number of taxes, Great Britain and France endeavored to compensate for the loss by levying a specific tax on the property of the above institutions. Their example was carefully considered by Russia.

The question of limiting the rights of relatives to intestate inheritances was raised. It was proposed that if the relationship between the deceased and the next of kin was more distant than the fifth or sixth degree, the next of kin should be held not to be possessed of any rights. The property should be declared vacant and the title vested in the State.¹⁵ Complete freedom of testamentary disposition, however, would be retained.

It was obvious that the receipts of the State from such a measure

¹⁵ Cf. J. Kulisher, *Ogranichenie nasledovanya po zakonu (Limitation of Intestate Inheritance)*, in *Torgovo-Promishlennaya Gazeta*, 1917, No. 133.

would be considerable only if the claim to intestate estates were limited to near degrees of kinship. A limitation to the fifth or sixth degree would have no practical value, for it would operate chiefly among the poorer and uneducated classes of the population which, owing either to ignorance or to prejudice, preferred not to make a will. It was decided, therefore, not to include any provisions in respect of the limitation of intestate inheritances in the bill for revising death duties.

iii. Reforms in Indirect Taxation and Proposed State Monopolies.

New increases in the rates of indirect taxes were enacted in 1917. According to the decision of the Provisional Government of the 19th July 1917, the rates on the finer qualities of tobacco were raised from 1 ruble 86 copecks to 2 rubles 90 copecks per pound or by 56 per cent, and those on the cheaper qualities from 40 copecks to 65 copecks per pound or by 60 per cent. It should be observed, however, that the depreciation of the ruble had by this time reached such a point that had the Government increased the rates of 1913 fivefold, the yield therefrom would, in real value, have only equalled the receipts of 1913.

The Provisional Government proposed also to increase the rates of several other duties and began with the excise on mineral oils. It had already refused to create a government monopoly of these, for a monopoly of production required the outlay of too large a capital and the profits to be derived from a monopoly of sale were too problematic.¹⁶

M. Bernatzky, Minister of Finance under the Provisional Government laid before the Council of Ministers a proposal for increasing the excise on naphtha to 4 rubles 80 copecks per pud and on fuel oils to 2 rubles 80 copecks per pud. The total revenue from this tax was estimated at 282.8 million rubles as against 87 million rubles estimated for 1917, or an increase over the 1917 estimates of 195.8 million rubles.

Of all the State monopolies that it had been proposed to create,

¹⁶ The author is quoting the unpublished Report (*doklad*) *Ob izmeneniyakh aktsiznago oblozheniya neftyanikh productov* (*On Changes in the Excise Duties on Mineral Oils*) laid before the Council of Ministers in 1917. This document was kindly placed at the author's disposal by Professor M. V. Bernatzky, late Minister of Finance in the Provisional Government.

only the monopoly of sugar was enacted before the fall of the Provisional Government.¹⁷ Owing to the shortage of sugar and the consequent necessity of regulating the distribution of the local supplies, a quasi-State monopoly of sugar had really been in existence for some time. A central office had been organized for controlling the purchase price of raw sugar and for enforcing an equitable distribution among the refineries. The pressing need for more revenue decided the Government to make the sale of sugar a State monopoly. The monopoly conferred on the Treasury the exclusive right of selling all products of the beet-sugar industry. The State administration bought the entire output of sugar (both raw and refined) of the Russian refineries, at prices which were fixed by the Ministry of Finance for each refinery and for each period of refining, according to the cost of refining sugar in the area. Registered sugar was subject to an excise of 2 rubles 80 copecks per pud. Raw sugar, purchased by the monopoly, was distributed to private or coöperative refineries or to special government refineries to be refined and prepared for the market. The object of maintaining government refineries was to keep down the price of the refined sugar sold by private refineries, as it was a highly important article of general consumption.

The wholesale trade in sugar was conducted by the Government direct from its refineries and warehouses, while the retail sale was entrusted to government, coöperative, and private shops, which were authorized to remunerate themselves by a fixed commission. The sale price was established by the Ministry of Finance within the limits prescribed by the legislature. These limits varied from 37 rubles 20 copecks to 57 rubles 20 copecks per pud of raw sugar and from 40 rubles to 60 rubles per pud of refined sugar. The sugar monopoly was made effective from the 14th September 1917, but its various provisions were not tested for a sufficient length of time to enable one to form a correct judgment as to its merits.

The proposed monopolies of tea, coffee, matches, and cheap tobacco did not, before the fall of the Provisional Government, pass beyond

¹⁷ M. Tsekhanovsky, *Kazennaya sakharная monopolya* (*The State Sugar Monopoly*), in *Promishlennost i Torgovlya*, 1917, Nos. 44-45, pp. 303 sqq.; cf. by the same author *Sakharная monopolya i interesi sakharnoi promishlennosti* (*The State Monopoly of Sugar and the Interests of the Sugar Industry*), in *Promishlennost i Torgovlya*, 1917, Nos. 36-37.

the stage of preliminary discussion.¹⁸ The plan for the State monopoly of tea was due primarily to the initiative of Professor Migulin.¹⁹ The sale of tea, both wholesale and retail, was to become a monopoly of the State. The entire supply of tea was to be purchased by the State both at home and abroad. Russian tea was to be produced only according to the instructions of the Ministry of Finance either at private or at government factories. The Government was to install factories at home and abroad and was to enter into contracts with foreign factories for the preparation of pressed tea. The green tea leaves, grown on Russian plantations, were to be supplied to the Treasury at the price and on the conditions fixed by the Minister of Finance and were to be handed over to the government or private factories, to be prepared for the market. The purchase of tea abroad was to be conducted either by the Government itself or by its agents. The Government was to open stores for the cleaning, weighing, packing, and storing of tea. Maximum and minimum prices for black, green, bohea, pressed, and brick tea were to be fixed by the legislature. The determination, within the limits prescribed by the legislature, of the various qualities and prices of tea was entrusted to the Minister of Finance. The wholesale trade was to be organized and conducted by government stores, the smallest quantity so dealt with being limited to one case of tea. The retail was to be entrusted to government, coöperative, and private shops. Tea was authorized to be served in public houses and restaurants. The revenue to the Treasury consisted of: (1) the profits made on the wholesale and retail sales; (2) licenses for conducting retail shops and tea-rooms;²⁰ (3) duty on tea imported by private persons; and (4) penalties for infractions of the monopoly regulations. One per cent of the annual net profits was to be deducted for the encouragement of tea cultivation in Russia. The general administration of the monopoly was

¹⁸ V. Maevsky, *K voprosu o povishenii kosvennago oblozheniya i o vvedenii monopolii* (Increase of Indirect Taxation and the New Monopolies), in *Promishlennost i Torgovlya*, 1917, Nos. 36-37 and 38-39; J. Kulisher, *Fiscalnaya monopoliya* (A Fiscal Monopoly), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 187.

¹⁹ Memorandum (*Zapiska*) of the Ministry of Finance on the proposed State monopoly of tea, dated September 1917.

²⁰ The price of the licenses depended upon the population of the particular area and varied from 10 to 50 rubles for retailers, and from 20 to 100 rubles for tea-rooms.

to be attached to the Department of Apportioned Taxes and the local administrations were to be under the control of the provincial and district excise boards. Customs and excise duties on tea were to be suppressed from the date of the introduction of the monopoly, but the date when the monopoly should be made effective and when private sale should be discontinued was left to the decision of the Minister of Finance. The total profit anticipated from the tea monopoly was 411.8 million rubles, from which, however, should be deducted 130 million rubles of customs duties previously collected from private importers, and 140 million rubles of excise duties, which left a sum of 140 million rubles as net profit to the Treasury.

The plan for a monopoly of cheap tobacco (*makhorka*)²¹ provided not only for the monopolization of the sale of the cheap qualities of tobacco on the home market, but also for the full control of both the export and import trades in these qualities. The price which the Government should pay at the factories for tobacco of this grade was to be determined by the Ministry of Finance on the basis of the cost of production, which government officials could verify by inspecting the books of the factory. Allowance was to be made for the cost of packing and delivery, and for the free transport to the railway stations or ports of departure or, in case of transportation by caravan, to the government stores. The conditions of import were to be fixed by the Minister of Finance. Export was to be conducted either by the Government itself, by coöperative societies or by other authorized agencies. The delivery of cheap tobacco from factories and customs houses could be effected only upon the written orders of special officials of the Finance Department. The wholesale trade was to be conducted by the Government directly from the factories, the factory stores, or the government stores. But the organization of the retail sale was so complicated that the State shops, alone, would have been incapable of conducting it and the greater part of the goods would certainly have been consigned to private enterprises. The net profits from this monopoly were estimated at 62.7 million rubles per annum.

The State monopoly of the sale of coffee was intended to control both the wholesale and the retail trades. Foreign coffee was to have

²¹ Memorandum (*Zapiska*) of the Ministry of Finance on the proposed monopoly of *makhorka*, dated September 1917.

been purchased either by the Government itself or by its agents. It was to have been sold by government stores or on commission by specially authorized private shops. The sale price was fixed by the Ministry of Finance. The total net profits from the coffee monopoly were expected to be 65 million rubles, from which the sum of 7.3 million rubles should be deducted for customs duties, which left an annual net gain to the Treasury of 58 million rubles.

It was proposed that the monopoly of matches, the last of the proposed monopolies, should include both the production and the sale of matches. The third clause of the measure ran as follows: "Matches shall be produced by the Government either at its own works or at works rented by the Government, or by private factories in accordance with government orders." While bills for establishing the monopolies of tea, tobacco, and coffee had been elaborated when the Bolshevik Revolution broke out, the project for the monopoly of matches never passed beyond the stage of discussion in committee.

The Bolshevik *coup d'état* in October 1917 threw the financial system of the country into confusion and put an end to all the plans of reform that had been prepared.

SECTION 4. RECEIPTS AND EXPENDITURE IN 1917.

It has already been remarked that the statistics for the revenue and expenditure of 1915, and especially of 1916, were very difficult to compile, owing to the fact that the only available material consisted of reports filed with the Ministry of Finance by its subordinate officials. Though these reports were never submitted to the State Audit Department, they nevertheless give a substantially correct account of the situation of the Treasury and of the public revenue and expenditure. The data available for 1917 were much less trustworthy. From the beginning of the Revolution, accounts were sent in very late and official estimates were in a state of constant instability, owing to the daily increase of expenditure.²² Even these very inaccurate accounts exist only until October 1917, when bookkeeping of every description was discontinued; from that time, public expenditure was principally met with the produce of the printing press.

In spite of the above difficulties, a certain amount of information

²² Professor V. Tverdokhlebov, *Nash rashodni budget* (Our National Expenditure), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 176.

concerning the period from January to October 1917 can be obtained. This information is to be found in the reports and articles of M. Dementiev, who was, during this period, Director of the Treasury Department under the Ministry of Finance, and who had access, in this capacity, to the best possible information concerning the state of the public finances. Additional information has very kindly been placed at the disposal of the author by M. Bernatzky, the last Minister of Finance under the Provisional Government.

The articles of M. Dementiev are based on the preliminary returns of revenue for the first seven months of 1917 and on official information as to the war expenditure during the same period. In view of their importance, they should be quoted in full. M. Dementiev writes:²³ "As may be seen from the reports of the subordinate officials of the Ministry of Finance, the ordinary revenue during the first seven months of 1917 amounted to 2,669 million rubles or 461 million rubles more than the revenue (2,208 million rubles) for the corresponding period of 1916. This increase was due chiefly to the increased receipts from the various taxes on industry. In the last five months of 1916, the ordinary revenue amounted to 1,766.5 million rubles; assuming that the yield of the months from August to December 1917 were the same, the total for 1917 would have reached 4,435 million rubles. This sum, moreover, should be augmented by the following receipts, which were to have been collected in the second half of 1917: 500 million rubles from the income tax; 80 million rubles from the extraordinary income tax levy; 625 million rubles from the increased yield of State railways, as a consequence of the higher rates; and about 70 million rubles from postal and telegraph services. A decrease of revenue, on the other hand, of 100 million rubles was anticipated in consequence of war-time conditions. The total receipts may thus be estimated at 5,700 million rubles, or an increase of 1,726 million rubles over the year 1916 (3,974.5 million rubles)."

"This total would have been realized," continues M. Dementiev, "had the frontiers of Russia remained unaltered. But in view of the new invasion by the enemy, involving the loss of Livonia and the threatened occupation of the entire western front, our figures have only a relative value. In addition to the ordinary revenue of 5,700

²³ G. Dementiev, *op. cit.*, *Vestnik Finansov*, 1917, No. 39, p. 366.

million rubles, certain other receipts under the head of extraordinary revenue were likewise foreseen: 260 million rubles, being the value of the private property and of the Crown lands of the late Emperor, confiscated by the Government after the Revolution; 400 million rubles, being the profits on the sale of foreign currency; approximately 20 million rubles of savings which had been effected by the army, and 1 million rubles of permanent deposits in the State Bank. These items of extraordinary revenue amounted to a total of 680 million rubles. The balances brought forward from former budgets represented, as in 1916, 30 million rubles."

The grand total of ordinary and extraordinary revenues amounted, therefore, to 6,420 million rubles.

Two attempts were made to determine the national expenditure for the same period. There is, on the one hand, the Memorandum prepared by the Financial Department at the request of M. Bernatzky, then Minister of Finance, which sets forth all credits opened by the Treasury from the 1st January to the 24th October 1917 (*see* Appendix VI). This Memorandum fixed the total expenditure for the period at about 21,000 million rubles, a sum, however, which did not include all the government expenditure. A more correct amount, though also only an estimate, may be found in the report submitted by M. Dementiev during the summer of 1917. This report was based on the supposition that the War would last during the whole year.

"The incomplete figures, the only ones, however, that are now available," writes M. Dementiev, "are as follows: Ordinary and extraordinary expenditure of the Civil Departments, 11,080 million rubles; of the Military and Naval Departments, 18,500 million rubles; of associations caring for the wounded and performing similar functions, 1,000 million rubles; and interest on rediscounted short-term Treasury bills issued in Russia and maturing in 1917, 800 million rubles. The grand total of these items amounted approximately to 31,380 million rubles, which may be distributed as follows: 4,800 million rubles of ordinary expenditure; 580 million rubles of extraordinary expenditure not caused by the War, and 26,000 million rubles of extraordinary expenditure caused by the War. In addition to this sum, there remained up to the 1st January 1917, approximately 702 million rubles (or more precisely 701.9 million rubles) of uncovered expenditure. The grand total of ex-

penditure will thus attain 32,082 million rubles. The resources at the disposal of the Finance Department according to preliminary returns, consisted of 5,700 million rubles of ordinary revenue; 680 million rubles of extraordinary revenue; receipts from loans contracted during the first eight months of 1917: domestic, 3,647.1 million rubles; foreign, 2,235.9 million rubles; and 6,835.2 million rubles of short-term Treasury bills. The total produced by all these items was 12,718.2 million rubles, to which should be added 30 million rubles, the balances from former budgets, which made a grand total of 19,128 million rubles. In order to cover the total expenditure of the entire year 1917, an additional sum of approximately 13,000 million rubles was needed (32,082 million rubles minus 19,128 million rubles)."

M. Dementiev, in his report to the Economic Council on the 1st August 1917, estimated the deficit at 15,000 million rubles. The same figure was submitted by M. Nekrasov, then Minister of Finance, at the Moscow Imperial Conference²⁴ and also by Professor Tverdokhlebov, in his article "Our National Expenditure," quoted above.²⁵ The magnitude of this deficit is indicated by the fact that the total receipts from the loans contracted during the three years of the War and from the short-term Treasury bills scarcely amounted to as much. It afforded an impressive warning of the impending bankruptcy of the country, which occurred after the fall of the Provisional Government and as soon as the Bolsheviks seized power.

²⁴ Speech delivered by N. V. Nekrasov, Minister of Finance, to the Imperial Conference (*Gosudarstvennoe Soveshchanie*) on the 12th August 1917, verbatim report of the proceedings.

²⁵ J. Kulisher, *Finansovaya programma* (*The Financial Program*), in *Torgovo-Promishlennaya Gazeta*, 1917, No. 178.

CHAPTER VI

TOTAL PUBLIC EXPENDITURE DURING THE GREAT WAR AND MEASURES ADOPTED TO COVER IT

THE foregoing chapters include tables showing the revenue and expenditure of the Russian Treasury for the several years from 1914 to 1917. In order to obtain a more comprehensive view of the total State expenditure during the war period and of the measures adopted to meet it, the following tables summarize the statistics already given and in particular the expenditure caused by the War and the receipts from war loans. They are compiled on the basis of the figures given by M. Dementiev.¹

The table below gives the totals of ordinary and extraordinary expenditure for the years 1914 to 1917.

Revenue and Expenditure, Ordinary and Extraordinary, Exclusive of the Receipts from War Loans and of War Expenditure during 1914-1917.

<i>Revenue</i>	<i>1914</i>	<i>1915</i>	<i>1916</i>	<i>1917</i>	<i>Total</i>
			(millions of rubles)		
Ordinary	2,898.1	2,827.7	3,974.5	5,700.0	
Extraordinary	8.3	196.4	327.0	680.0	
Brought forward from preceding years	54.4	36.2	30.0	30.0	
Total	2,960.8	3,060.3	4,331.5	6,410.0	16,762.6
<i>Expenditure</i>					
Ordinary	2,927.1	2,642.7	2,921.8	4,800.0	
Extraordinary	276.4	193.9	230.0	580.0	
Total	3,203.5	2,836.6	3,151.8	5,380.0	14,571.9
<i>Balance</i>					
+ favorable					
— unfavorable	—242.7	+223.7	+1,179.7	+1,030.0	+2,190.7

¹ The accurate estimate of the cost of the War would require years of continuous work by the Audit Department; therefore all calculations regarding the cost to Russia of the War are only approximations. In this respect Russia is in a particularly unfavorable position because the work of

It would seem that the total revenue sufficed not only to cover the ordinary and extraordinary expenditure, but also that a favorable balance of 2,190.7 million rubles was gradually accumulated during these four years. This surplus, however, would be converted into a deficit had the expenditure for the maintenance of the army and navy and of the several military departments (1,732 million rubles for the 3½ years) and the payment of interest on the rediscount of short-term Treasury bills (1,224 million rubles for 3½ years) not been charged to the account of the war fund.

The expenditure caused by the War was not limited merely to the maintenance of the army and of the navy and to various supplies. Many credits for civil purposes were allowed to be charged to the war fund, though on the other hand, much war expenditure was met out of credits granted to the civil departments.

The chief expenditure incurred by the civil departments as a consequence of the War consisted of allowances to the families of soldiers. The total sum expended for this purpose to the end of 1917 was estimated at about 5,000 million rubles, distributed over the several years as follows: 1914, 190.6 million rubles; 1915, 623.7 million rubles; 1916, 1,106.8 million rubles; and 1917, 3,000 million rubles. Government assistance granted to refugees between 1914 and 1917 amounted to 736 million rubles. The Ministry of Transport was involved by the War in heavy expenditure. The construction, repair, and operation of the railways, the purchase of rolling stock, the increase of their working capital, and the granting, during the revolutionary period, of various demands made by the railroad personnel, all entailed large drafts upon the war fund. In the single year 1917, the demands of the railroad personnel imposed an additional burden of 2,000 million rubles upon the Treasury. Further expenditure was authorized for the construction and repair of roads and waterways, for the improvement of commercial ports, for the purchase of food and seeds for the population, for the administration of the postal and telegraph services, for the storage of fuel, and for advances to various technical enterprises engaged in the production of army supplies.

the Audit Department was suspended after the Revolution and the greater part of the financial records dealing with the latter part of the War, as far as we can judge from evidence at our disposal, has been destroyed.

The table below gives the credits granted for war purposes to the principal departments of the State:

	<i>War Office</i>	<i>Admiralty</i>	<i>Ministry of the Interior</i>	<i>Ministry of Transport</i>	<i>Other Departments</i>	<i>Total</i>
	(millions of rubles)					
1914						
July-December	2,202.3	83.3	200.5	36.7	17.2	2,540.0
1915	7,492.7	406.0	832.9	388.0	261.3	9,380.9
1916	11,395.5	804.6	1,526.9	1,050.3	489.7	15,267.0
1917						
January	1,364.1	101.5	97.9	90.8	47.4	1,701.7
February	1,223.4	81.5	41.2	169.5	56.7	1,572.3
March	1,512.7	41.5	473.7	53.0	61.3	2,142.2
April	1,328.0	121.5	84.1	107.8	42.0	1,683.4
May	976.0	102.9	33.1	155.9	44.1	1,312.0
June	1,261.9	115.0	679.0	92.4	93.4	2,241.7
July	1,026.1	120.1	111.8	131.2	104.8	1,494.0
August	1,161.9	80.0	106.4	628.8	80.4	2,057.5
Total for 8 months	9,854.1	764.0	1,627.2	1,429.4	530.1	14,204.8
Total from the outbreak of war	30,944.6	2,057.9	4,187.5	2,904.4	1,298.3	41,392.7

Total appropriations for war purposes may, therefore, be tabulated as follows:

	<i>Millions of rubles</i>	<i>Percentage</i>
War Office	30,944.6	74.8
Admiralty	2,057.9	5.0
Ministry of the Interior	4,187.5	10.1
Ministry of Transport	2,904.4	7.1
Other Departments	1,298.3	3.0
Total	41,392.7	100. ²

² In addition to the lump sums appropriated for army and navy as indi-

The combined appropriations of the Military and Naval Departments amounted to 33,022.5 million rubles and constituted 79.8 per cent of the total estimated State expenditure, whereas that of all the other departments amounted to 8,390.2 million rubles, or 20.2 per cent of the whole.

The data quoted above refer to the appropriations for military purposes. The actual war expenditure was slightly less and on the 1st September 1917 amounted, as we shall see, to about 38,649 million rubles.

It is interesting to compare the above figures of war appropriations to the 1st September 1917, as compiled by M. Dementiev, with the amount of such appropriations, according to the official report of the Minister of Finance at the end of October 1917.³ This report (see Appendix VI) indicates that on the 24th October 1917 the total appropriation for the entire war period had amounted to 45,200 million rubles. The rate of the increase in expenditure, moreover, was especially significant.

The daily expenditure, according to the figures of authorized credits, was as follows:

cated above (approximately 30,000 million and 2,000 million rubles, respectively) the appropriations were detailed as follows:

	(millions of rubles)
Upkeep and supply of the army	30,944.6
Upkeep and supply of the navy	2,057.9
Allowances to families of soldiers	3,264.1
Aid to refugees	569.5
Extension of postal and telegraph services	122.4
Construction of new railway lines	369.3
Extension of existing lines	1,172.7
Purchase of rolling stock	617.6
Improvement of ports	115.2
Improvement of roads and waterways	79.7
Other expenditure	2,079.7
Total	41,392.7

Torgovo-Promishlennaya Gazeta, 1917, No. 198.

³ Information kindly placed at the author's disposal by Professor Bernatzky.

	War Office	Admiralty	Ministry of the Interior	Ministry of Transport	Other Depts.	Total
	(millions of rubles)					
1915	20.5	1.1	2.3	1.1	0.7	25.7
1916	31.1	2.2	4.2	2.9	1.3	41.7
1917 Jan.-Aug.	40.5	3.1	6.7	5.9	2.2	58.4
Increase for the whole year 1916	10.6	1.1	1.9	1.8	0.6	16.0
Increase for the 8 months of 1917	9.4	0.9	2.5	3.0	0.9	16.7

This table illustrates very strikingly the results of the revolutionary activity. The expenditure increased more during the eight months of the revolutionary period of 1917 than during the entire year 1916. The ratio of increase was greater for the Ministry of the Interior and for the Ministry of Transport than for the other departments, owing to the larger allowances granted to the families of soldiers and to the very extensive demands of the railway personnel.

In order to complete this review of Russian State Finance during the War, we should recapitulate the methods by which the public expenditure was met.

According to the official report of the Treasury, the following resources were employed prior to the 1st September 1917:

	(millions of rubles)
Free balance of the Treasury at the beginning of 1914 and sums brought forward from previous ordinary and extraordinary budgets (the war budgets of 1914-1917 excluded)	2,611.6
Loans contracted	
Domestic	11,408.2
Foreign	8,070.7
Short-term Treasury bills (in Russia)	16,426.5
Total	38,517.0

As appears from the above table, out of the total of 38,500 million rubles available for meeting public expenditure during the war period, 35,900 million rubles were obtained from loans, and 2,600 million rubles were drawn either from the free balance of the Treasury existing in 1914, or from the unexpended balances of the budgets of previous years which accrued to the Treasury.

In order to cover the expenditure during the last four months of 1917 (September to December) it was necessary to obtain revenue amounting to about 13,000 million rubles (51,400 million minus 38,500 million = 12,900 million). Examination of the above figures relating to State borrowing will show that 11,400 million rubles was obtained from domestic loans, 8,070 million rubles from foreign loans, and 16,400 million rubles from the issue of short-term Treasury bills. It would be wrong, however, to suppose that the entire quantity of short-term bills issued by the Treasury was subscribed by the public. Scarcely 4,400 million rubles of bills were disposed of in this way, the remaining 11,900 million rubles were kept by the State Bank in its vaults and the Treasury was credited with a sum equivalent to the face value of the bills. But in order to finance the credit of 12,000 million rubles which it extended to the Government, the State Bank itself had to issue bank notes in its own name.

The total issue of paper money, from the outbreak of the War to the 1st September 1917, amounted to 13,842 million rubles.⁴

The means adopted to cover the war expenditure down to the 1st September 1917 may be tabulated as follows:

<i>Year</i>	<i>Domestic loans and Treasury bills (in Russia)</i>	<i>Foreign loans</i>	<i>Total (millions of rubles)</i>	<i>War expenditure</i>	<i>Percentage covered by borrowing</i>
1914	856.6	82.0	938.6	1,655.4	56.7
1915	3,479.7	2,088.0	5,567.7	8,818.4	63.1
1916	6,150.0	3,664.8	9,814.8	14,572.8	67.3
1917 down to 1st September	5,350.8	2,235.9	7,586.7	13,603.0	55.8
	<hr/> 15,837.1	<hr/> 8,070.7	<hr/> 23,907.8	<hr/> 38,649.6	<hr/> 61.9

Out of the total war expenditure of 38,649.6 million rubles, 61.9 per cent or 23,900 million rubles was met by borrowing, 7 per cent out of the free balance of the Treasury or from unexpended balances accruing to the Treasury from former budgets, and 31.1 per cent or 12,000 million rubles by the issue of paper notes.

⁴ Cf. M. Bernatzky, *Monetary Policy of the Russian Government during the War*.

APPENDIX I

FREE BALANCE OF THE TREASURY

	(millions of rubles)
1st January 1901	105.0
1st January 1902	268.4
1st January 1903	257.4
1st January 1904	381.3
1st January 1905	61.9
1st January 1906 (deficit)	—158.0
1st January 1907	58.5
1st January 1908	8.9
1st January 1909	1.8
1st January 1910	107.4
1st January 1911	333.0
1st January 1912	473.4
1st January 1913	433.3
1st January 1914	514.2
1st January 1915 (deficit)	—1.306.1

Ministry of Finance,

Department of the State Treasury.

APPENDIX II STATE REVENUE AND EXPENDITURE

(in millions of rubles)

(Compiled on the basis of the figures of the Ministry of Finance, Department of the Treasury.)

Year	Ordinary Revenue			Balances of preceding years brought forward			Expenditure			Excess of Ordinary Revenue plus balances of preceding years over Ordinary Expenditure		
	Actual Receipts	Excess over the Estimates	Extraordinary Receipts	Total	Extraordinary		Including balances of preceding years		Total			
					Ordinary	Extraordinary	Ordinary	Extraordinary				
1901	1,799.5	69.4	163.9	1,963.4	35.3	20.5	1,664.9	17.2	209.4	17.7	1,874.3	+ 169.9
1902	1,905.4	101.6	202.1	2,107.5	19.7	10.8	1,802.1	15.3	365.0	5.0	2,167.1	+ 123.0
1903	2,031.8	134.8	170.9	2,202.7	25.5	7.1	1,883.0	7.9	224.8	1.7	2,107.8	+ 174.3
1904	2,018.3	38.2	385.4	2,403.7	14.2	2.8	1,906.8	4.4	830.8	0.8	2,737.6	+ 125.7
1905	2,024.5	47.5	793.5	2,818.0	19.1	152.6	1,925.2	12.0	1,279.6	149.9	3,204.8	+ 118.4
1906	2,271.7	243.8	1,084.1	3,355.8	17.2	50.8	2,061.1	15.3	1,151.6	48.1	3,212.7	+ 227.8
1907	2,342.5	...	143.0	2,485.5	29.7	14.6	2,196.0	21.6	386.6	...	2,582.6	+ 176.2
1908	2,417.8	30.9	200.9	2,618.7	24.9	7.1	2,387.8	19.4	268.9	...	2,656.7	+ 54.9
1909	2,526.3	67.6	162.7	2,689.0	15.9	7.8	2,451.4	3.2	156.1	...	2,607.5	+ 90.8
1910	2,781.0	200.9	24.1	2,805.1	16.9	7.6	2,473.2	3.1	123.5	...	2,596.7	+ 324.7
1911	2,951.8	244.1	2.6	2,954.4	22.3	13.2	2,536.0	3.9	309.7	5.2	2,845.7	+ 438.1
1912	3,105.9	209.4	1.8	3,107.7	18.4	5.7	2,721.8	...	449.3	...	3,171.1	+ 402.5
1913	3,417.4	176.8	13.8	3,431.2	18.2	3.1	3,094.2	...	288.7	...	3,382.9	+ 341.4
1914	2,898.1	—674.1	1,603.6	4,501.7	24.0	30.4	2,927.1	...	2,816.4	...	5,743.5	— 5.0

APPENDIX III

GENERAL SUMMARY OF THE STATEMENT OF
REVENUE AND EXPENDITURE FOR 1914

THE Budget for 1914, with specification of the conditional credits,¹ drawn up in accordance with the votes of the Imperial Council and the Duma and on the basis of Clause 13, Rules of Procedure for Deliberating on the Finance Bill, received the Imperial Sanction on the 22nd June 1914.

State Revenue.

<i>Clause Number</i>		<i>Estimated for 1914</i>
I.		
<i>Ordinary Revenue</i>	<i>Rubles</i>	
1. Direct Taxes	276,007,384	
2. Indirect Taxes	731,441,900	
3. Duties	237,936,700	
4. Royalties	1,070,223,250	
5. State Property and Funds	1,119,889,657	
6. Sale of State Property	1,925,280	
7. Redemption	944,900	
8. Reimbursement of Expenditure incurred by Treasury	118,448,868	
9. Sundry Receipts	15,351,534	
Total		3,572,169,473
II.		
<i>Extraordinary Resources</i>		
10. Permanent Deposits in the State Bank	1,400,000	
11. Repayments to the Treasury of debts charged to the account of the Imperial Supply Fund and incurred for the pur- chase of food and seeds for the popu- lation	12,000,000	
Total		13,400,000
From the Free Balance of the Treasury		27,999,925
Grand Total		3,613,569,398

¹ Conditional credits (*uslovnii krediti*) are financial provisions designed to meet the expenditure of legislative measures which have not yet passed through the usual legislative stages; the drawing of money under these provisions is made conditional on the acceptance of the measure itself.

State Expenditure.

<i>Clause Number</i>	<i>Supply voted for 1914</i>
I.	
<i>Ordinary Expenditure</i>	<i>Rubles</i>
1. Ministry of the Imperial Court	16,359,595
2. Highest Imperial Assemblies ²	8,316,955
3. Holy Synod	53,093,225
4. Ministry of the Interior	206,539,550
5. Ministry of Finance	498,163,110
6. Ministry of Justice	104,909,299
7. Ministry of Foreign Affairs	7,774,727
8. Ministry of Public Education	169,579,399
9. Ministry of Transport	719,088,846
10. Ministry of Commerce and Industry	70,892,569
11. Department of Agriculture and Land Settlement	157,520,349
12. Department of State Horse-Breeding	4,583,470
13. Ministry of War	621,565,110
14. Ministry of Marine	246,111,003
15. State Audit Department	12,918,740
16. Service of the National Debt	402,107,570
17. Expenditure not foreseen in the estimates	10,000,000
<hr/>	
Total	3,309,523,517
(Surplus of Ordinary Revenue over Ordinary Expenditure: 262,645,956 rubles.)	
II.	
<i>Extraordinary Expenditure</i>	
18. Expenditure due to the Russo-Japanese War and its consequences	435,000
19. Strategic and Economic Expenditure of the War Department	125,420,000
20. Construction of Railways	107,936,800
21. Grants to Railway Companies	1,406,300
22. Construction of new and reconstruction of existing harbors	18,000,000
23. Redemption of bonds of the 4½ per cent Russian State Loan of 1905	27,999,925
24. Construction of subsidiary railway lines and other means of communication	22,847,856
<hr/>	
Total	304,045,881
<hr/>	
Grand Total	3,613,569,398

² The Duma, State Council, Senate (Supreme Court), Council of Ministers.

APPENDIX IV

GENERAL SUMMARY OF THE STATEMENT OF
REVENUE AND EXPENDITURE FOR 1916(Financial Statement as laid before the Legislative Chambers and
Final Statement as voted by the Duma and State Council.)*State Revenue.*

	<i>Figures of the Statement as laid before the Legislature</i>	<i>Figures of the Statement as passed by the Legislature</i>
I.		
<i>Ordinary Revenue</i>	<i>Rubles</i>	<i>Rubles</i>
1. Direct Taxes	359,674,376	359,674,376
2. Indirect Taxes	802,728,900	813,728,900
3. Duties	432,601,600	443,601,600
4. Royalties	234,448,200	251,675,800
5. State Property and Funds	951,176,639	1,030,830,316
6. Sale of State Property	1,243,869	1,273,869
7. Redemption Payments	1,563,586	1,563,586
8. Reimbursement of Expenditure Incurred by the Treasury	113,847,378	112,552,414
9. Miscellaneous Receipts	16,798,457	17,248,457
Total	2,914,083,005	3,032,149,318
II.		
<i>Extraordinary Resources</i>		
10. Permanent Deposits in the State Bank	1,000,000	1,000,000
11. Repayments to the Treasury of debts charged to the account of the Im- perial Supply Fund and incurred for the purchase of food and seeds for the population	8,000,000	8,000,000
12. Issue of Treasury Bills		150,000,000
Total	9,000,000	159,000,000
Proceeds of Loans	327,832,192	455,435,259
Grand Total	3,250,915,197	3,646,584,577

State Expenditure.

	<i>Figures of the Finance Bill</i>	<i>Credits as voted for 1916</i>
I.		
<i>Ordinary Expenditure</i>	<i>Rubles</i>	<i>Rubles</i>
1. Ministry of the Imperial Court	16,359,595	16,359,595
2. Highest Imperial Assembly	9,097,548	9,262,863
3. Holy Synod	53,965,767	62,920,835
4. Ministry of Home Affairs	227,402,038	214,623,374
5. Ministry of Finance	324,161,510	326,301,325
6. Ministry of Justice	101,786,135	106,188,763
7. Ministry of Foreign Affairs	7,193,891	7,193,891
8. Ministry of Public Education	165,159,780	195,623,813
9. Ministry of Transport	686,813,203	676,924,994
10. Ministry of Commerce and Industry	63,515,327	56,395,493
11. Ministry of Agriculture	138,790,952	137,547,013
12. Department of State Horse-Breeding	3,808,530	3,808,530
13. Ministry of War	590,438,770	580,167,179
14. Ministry of Marine	182,587,285	181,564,286
15. State Audit Department	12,720,669	12,696,669
16. Service of National Debt	580,323,091	690,339,348
17. Unforeseen Expenditure	10,000,000	10,000,000
Total	3,174,124,091	3,287,917,971
II.		
<i>Extraordinary Expenditure</i>		
18. Strategic and Economic Expenditure of the War Department	10,897,230	10,897,230
19. Construction of Railways	57,529,876	93,529,876
20. Grants to Railway Companies	370,000	370,000
21. Construction of New and Reconstruction of Existing Harbors	7,994,000	7,994,000
22. Payment of Customs Duties on Articles Imported by Government Depart- ments and for Transport of Troops and Supplies		245,875,500
Total	76,791,106	358,666,606
Grand Total	3,250,915,197	3,646,584,577

<i>In 1916</i>	<i>Rubles</i>
The Credits opened in accordance with the Finance Act amounted to	3,646,584,577
Supplementary Credits not attributable to the War	255,071,839
Expenditure due to the War	14,516,985,552 ¹
	<hr/>
The Average Monthly Credits in 1916 Amounted to	18,418,641,968
	1,538,200,000

¹ The total credits granted for this category of expenditure amounted really to 15,267,061,052 rubles.

This total is reduced by 504,200,000 rubles for the maintenance of the Military and Naval Departments and the Corps of Frontier Guards on their peace footing, and by 245,875,500 rubles representing customs duties and payments for government transport. Both these credits were included in the total for the budget—3,646,584,517 rubles—but at a later stage they were cancelled and charged to the war fund.

APPENDIX V

STATEMENT OF THE GRANTS CHARGED TO THE
TREASURY FROM THE 1ST MARCH 1917
TO THE 20TH OCTOBER 1917

	<i>On the provi- sional list of expenditure</i>	<i>In excess of the provisional lists For purposes not assimilable to war expenditure</i>	<i>Expenditure due to the War (in rubles)</i>	<i>Total</i>
<i>March</i>	274,432,991	21,238,308	2,142,207,830	2,437,879,129
<i>April</i>	215,319,790	26,776,412	1,683,368,141	1,927,464,343
<i>May</i>	319,641,542	30,514,225	1,311,981,510	1,662,137,277
<i>June</i>	317,060,156	202,682,093	2,241,786,361	2,761,528,610
<i>July</i>	284,827,515	103,223,000	1,494,000,926	1,882,051,441
<i>August</i>	281,741,809	165,636,000	2,057,475,319	2,504,853,128
<i>September</i>	358,563,423	91,409,000	1,387,475,326	1,837,447,749
<i>October</i>	358,563,423	36,537,142	1,745,220,150	2,140,320,715
Total	2,410,150,649	680,016,180	14,063,515,564	17,153,682,393

The Grants in January and February 1917 amounted to:

1. On the provisional lists	529,029,399
2. In excess of the above	
a. Not assimilable to the war expenditure	51,466,238
b. Expenditure caused by the War	3,273,987,399
Total for two months	3,854,483,036
Total for the subsequent eight months	17,153,682,393
Total expenditure for ten months	21,008,165,429

APPENDIX VI

LIST OF THE EXTRAORDINARY SUPPLEMENTARY
CREDITS OPENED TO MEET WAR EXPENDITURE
FROM THE OUTBREAK OF THE WAR TO THE
24TH OCTOBER 1917¹

<i>Departments</i>	<i>Rubles</i>
Ministry of Public Welfare	4,885,999
Ministry of the Imperial Court	6,759,541
State Council	31,850
State Duma	390,459
Imperial Chancery	1,969,417
Chancery of the Council of Ministers (Chancery of the Provisional Government)	7,416,274
Personal Chancery of the Emperor	156,447
Chancery of the Emperor for Receiving Petitions	883,028
Holy Synod	29,996,073
Ministry of the Interior (General Administration)	4,813,151,915
Department of Posts and Telegraphs	139,362,516
State Treasury	150,112,579
Administration of the Corps of Frontier Guards	1,471,562
Special Credit Office	165,238,359
Other Departments of the Ministry of Finance	81,000,139
Ministry of Justice	45,007,685
Ministry of Foreign Affairs	31,735,656
Ministry of Public Education	114,895,381
Ministry of Transport	3,387,934,547
Ministry of Commerce and Industry	427,459,622
Ministry of Agriculture	226,683,133
Department of State Horse-breeding	7,776,935
Ministry of War	33,247,599,732
Ministry of Marine	2,347,887,499
State Audit	20,421,205
Charged to the Credit Account	3,482,595
Total	45,266,710,148
	<i>Rubles</i>
¹ Including: credits for meeting unforeseen expenditure	512,039,993
In aid of the Zemstvo Union	812,230,693
In aid of the Union of Towns	333,896,309
And other organizations for the Relief of the Wounded	507,535,293
	1,653,662,295

CREDIT OPERATIONS OF THE RUSSIAN
GOVERNMENT DURING THE WAR

BY PAUL N. APOSTOL

CHAPTER I

INTRODUCTION

1. THE GOVERNMENT DEBT AND THE DEVELOPMENT OF AN INVESTMENT MARKET IN RUSSIA PRIOR TO THE WAR.

THERE were great differences between the credit operations undertaken during the War and those resorted to before it, both in respect of their magnitude and the terms on which the loans were issued or credits opened. Within the country both the amount and the conditions of the war-time issues were determined by the artificial abundance of money resulting from the issue of paper currency. On the other hand, foreign credits were no longer obtained, as in peacetime, by floating loans on the open market; instead, the Russian Government secured the foreign exchange it required for the conduct of the War through advances made by the Allied Governments for the purposes of the common cause. Neither the amount nor the conditions of these advances were determined by the same factors as had governed Russia's foreign loans before the War. Neither the state of Russian finances nor Russia's credit played the same predominant and decisive part in respect of the advances of the Allied Governments as those factors had played when loans were contracted abroad in peacetime.

However, the excellent credit of the Russian Government at the outbreak of the War, both in the home market and abroad, the comparatively small amount of the outstanding government debt, the steady accumulation in the country of free funds available for investment, the growing capacity of the money market, to which the Government had had little recourse for the purpose of its temporary requirements in the last years before the War,—all these greatly contributed to Russia's preparedness for war, and facilitated the task of financing it. These factors must, therefore, be briefly discussed before we proceed to the description of the war loans proper.

This preliminary discussion of the origin and situation of the pre-war debt is dictated by a further consideration. Russia's pre-war debt and her war debt do not form a homogeneous whole. They differ with regard both to their origin and to their nature, and it

may also be presumed that different methods will be applied to each when the problem of debt settlement and resumption of payments is taken up. A brief description of the pre-war debt is necessary if these differences are to be clearly brought out.

Growth of the Russian Government Debt.

The system of organized government credit dates in Russia from the reign of Catherine II (1762-1796), that is, from the second half of the eighteenth century. From that time to the 1st January 1914, the Russian Government had borrowed within the country and abroad a total amount of 15,000 million rubles. On the 1st January 1914, the outstanding government debt amounted to 8,811 million rubles. Over 40 per cent of the amount borrowed had been redeemed.

The growth of the Russian government debt to the outbreak of the Russo-Japanese war is shown in the following table, which is taken from Professor P. P. Migulin's work on *Russian State Credit*:¹

	<i>Rubles</i>
At the end of the reign of Catherine II (1796)	35,402,000
At the end of the reign of Paul I (1801)	53,528,000
At the end of Guriev's Ministry (1832)	213,623,000
At the end of Count Kankrin's Ministry (1842)	462,269,000
At the end of Count Vronchenko's Ministry (1852)	732,245,000
At the beginning of the period of Alexander II's reforms (1861)	1,264,349,000
At the outbreak of the Russo-Turkish War (1876)	2,949,569,000
At the end of the Bunge Ministry (1886)	4,418,057,000
At the end of the Vishnegradsky Ministry (1892)	4,905,410,000
At the end of the Witte Ministry (1903)	6,679,144,000

The growth of the debt during the period from 1861 to 1876 is accounted for primarily by the payment of compensation to the former owners for the lands allotted to the peasants under the Emancipation Act, and by the issue of railway loans. About 1,500 million rubles were borrowed by the Government during the war with Turkey and its liquidation,² and it is chiefly to these loans that we must attribute the large amount of outstanding debt in the last

¹ P. Migulin, *Russki Gosudarstvenni Kredit (Russian State Credit)*, 1899-1902, p. 1147.

² Migulin, *op. cit.*, p. 1132.

decades of the nineteenth century. The loans issued under Vishnegradsky's administration were on a small scale, and they were designed for productive purposes—the construction of railways. Under Witte, credit operations increased to an unprecedented extent; this was due, on the one hand, to more extensive railway construction, and, on the other, to repeated debt conversions and the substitution of a single type of 4 per cent *rente* for various old debts. Funds had also been required to reimburse the State Bank for advances of bank notes to the Treasury and to finance the debt service on the mortgage loans of the Nobility Bank and of the Peasant Land Bank. Loans issued by the Government under Witte's administration amounted in the aggregate to 4,601,289,000 rubles. Of these, however, 2,827,555,000 rubles served for the conversion, redemption, amortization, and exchange of old loans, while 878,890,000 rubles represented the debts of railway companies purchased by the Government. Thus, the actual amount of new indebtedness incurred in that period was 894,844,000 rubles only.

The war with Japan led to a considerable increase in the Russian debt,³ and the total outstanding reached 9,055 million rubles on the 1st January 1910.

Development of Russia's Productive Forces, Finances, and Money Market, in the Last Five Years before the War.

Thanks to the elasticity of the Russian national economy, its enormous latent strength, and the natural resources of the country,

³ The cost of the war with Japan was 2,295 million rubles, including 2,113 million rubles spent in the years 1904 to 1906, and 182 million rubles spent in the succeeding years. The following loans were issued for the requirements of that war:

	<i>Rubles</i>
5 per cent Loan of 1904	300,000,000
3.6 per cent Treasury Bonds	150,000,000
4½ per cent Loan of 1905	231,500,000
First 5 per cent Domestic Loan of 1905	200,000,000
Second 5 per cent Domestic Loan of 1905	200,000,000
Short-term 5 per cent and 5½ per cent Obligations	461,000,000
5 per cent Loan of 1906	844,000,000
	<hr/>
Total Nominal Amount	2,386,000,000
Actual Proceeds	2,137,000,000

Russia speedily recovered from the ordeal of the war with Japan. A few years after the war the situation of the Treasury was not merely normal once more, but was stronger than at any previous time. The annual increase of ordinary government revenue in the five-year period 1909-1913 averaged 200 million rubles, while the growth of ordinary expenditure for the same period amounted, on the average, to only 141 million rubles a year. In 1913, which was the last fiscal year before the War, the total ordinary and extraordinary revenue, including balances carried forward from the budgets of preceding years, exceeded the total ordinary and extraordinary expenditure by 69,600,000 rubles.

This prosperous condition of the government finances and of the Treasury was due to the general economic progress of the country during the years⁴ in question. The period of economic depression was followed by one of rapid restoration of the productive forces of the country, owing in a great measure to favorable natural conditions, which caused a succession of rich harvests. Production in all industries was developing with increasing rapidity, and the volume of trade was growing every year, in spite of the decrease of grain exports and of the fall of prices, which had an adverse effect upon Russia's foreign trade balance in 1913.

The progress of trade and production was accompanied by a rapid accumulation of capital in the country. The total amount of outstanding securities and mortgage loans, and of money in circulation in Russia, was estimated at 11,300 million rubles on the 1st January 1904; at 14,300 million rubles on the 1st January 1909; and at 19,000 million rubles on the 1st January 1913.

During the above period, the amount of interest-bearing securities had increased from 8,300 million rubles to 13,300 million rubles, or by 60 per cent; that of outstanding mortgage loans, from 1,200 million rubles, to 1,900 million rubles, or by 58 per cent; and that of money in circulation, from 1,800 million rubles, to 3,800 million

⁴ The data quoted below with reference to the financial condition of the country in the last five-year period before the War have been taken from the publication *Ministerstvo Finansov, 1904-1913* (*The Ministry of Finance, 1904-1913*), issued by the Russian Finance Ministry after the resignation of Count V. N. Kokovzov as head of the Ministry. This brilliant period in the history of Russian finances is closely associated with the name of that statesman.

rubles, or 111 per cent. The practice of saving was taking deep root among the masses, as may be seen from the progress of the operations of savings banks and institutions for small credit during this period. The aggregate deposits in savings banks had doubled between 1904 and the end of 1913, having increased from 1,022 million rubles to over 2,000 million rubles. Deposits in savings banks, etc. (*uchrezhdenya melkago kredita*), had increased by 600 per cent in the same period.

Issues of securities in the last five-year period before the War were chiefly made for productive purposes,—mortgage loans, the financing of industrial enterprises, extension of railways, etc.

Private corporate issues had been practically discontinued in the years 1904 to 1906, as a result of the war with Japan and of the precipitate fall in the prices of securities, which continued to the year 1907. The loans of that period had been those floated by the Government for war purposes, and they were to a great extent issued abroad. From 1907, however, issues for productive purposes were resumed, and they were gradually increasing; mortgage loans were the first to expand, and they were followed by stocks and bonds of railways, and, finally, by shares of industrial and commercial undertakings and of banks, especially from 1910 on.

*Securities Issued in Russia and Abroad in 1904-1908 and
in 1909-1913.*

	<i>1904-1908</i> <i>Rubles</i>	<i>1909-1913</i> <i>Rubles</i>
Government Loans	2,143,200,000	175,000,000
Mortgage Loans	1,279,300,000	2,475,400,000
Municipal Loans	86,200,000	226,400,000
Railway Stocks and Bonds	207,400,000	817,200,000
Shares of Commercial and Land Banks	61,500,000	456,200,000
Industrial and Commercial Stocks and Bonds	596,700,000	1,378,400,000

It is thus seen that the issues made in the critical years 1904 to 1908 were chiefly government loans. The same years witnessed a strong inflow of foreign capital, which was invested mainly in the government securities. The situation was different in the period 1909 to 1913. While the investment of foreign capital showed a certain increase in absolute amount over the preceding five-year period, its relative importance, as compared with the investment of

Russian capital, was considerably reduced; the foreign capital was now invested in productive undertakings.

*Securities Issued in Russia and Abroad in 1904-1908
and in 1909-1913.*

	<i>1904-1908 Rubles</i>	<i>1909-1913 Rubles</i>
Securities issued within Russia	2,861,800,000	3,840,400,000
Securities issued abroad	1,517,300,000	1,718,400,000

Another interesting development of the last pre-war years was the reimport of Russian securities from abroad, to an amount which was estimated at 850 million rubles for government guaranteed bonds alone. This was another symptom of the economic progress of the country.

Finally, the same process is illustrated by the movement of deposits in banks and savings banks. By the end of 1903 the amount of all deposits aggregated 2,136 million rubles, and it fell to 2,065 million rubles by the end of 1905. Deposits began to increase from the end of 1906, slowly at first, and then at an increasing rate, and they attained a total of 5,746 million rubles by the end of 1913. As regards, in particular, deposits in commercial joint-stock banks, the increase was from 761 million rubles, at the end of 1906, to 2,539 million rubles seven years later. Deposits of this kind, however, can only partly be regarded as savings, as they represent to a great extent the working capital of the country.

All these indices of the growth of funds available for investment may not appear very impressive, when compared with similar data relating to other countries, as, for instance, Great Britain or France. Under Russian conditions, however, the rapid progress which they denote is of great significance, and it was a factor of importance in the successful flotation of the war loans, at least in the first period of the War.

The Government Debt at the Outbreak of the War.

As has been shown above, hardly any government loans were issued in the last five years before the War. From 1908 to the outbreak of the War, the outstanding government debt showed a steady

though small decrease owing to amortization, as will be seen from the following figures:

<i>Outstanding Debt on the 1st January of the Year:⁵</i>	<i>Rubles</i>
1910	9,055,000,000 ⁶
1911	9,030,000,000
1912	8,958,000,000
1913	8,858,000,000
1914	8,825,000,000

The composition of the Russian debt on the 1st January 1914 is shown in the following table:

⁵ Dates in this monograph are in accordance with the Russian calendar where referring to Russian events.

⁶ See p. 252, n. 9.

<i>Rate of Interest</i>	<i>Loans for General Government Purposes</i>			<i>Railway Loans^s</i>		
	<i>Redeemable</i>	<i>Perpetual</i>	<i>Total</i>	<i>Redeemable (In rubles)</i>	<i>Perpetual</i>	<i>Total</i>
3 per cent	207,277,000	20,272,000	227,549,000	260,412,000	.....	260,412,000
3½ per cent	22,174,000	20,976,000	43,150,000	119,168,000	.....	119,168,000
3.6 per cent	150,516,000	.....	150,516,000	.....	.....	.....
3.8 per cent	82,187,000	.....	82,187,000	.....	.....	.....
4 per cent	544,053,000	2,305,295,000	2,849,348,000	1,839,135,000	860,193,000	2,699,328,000
4½ per cent	755,895,000	6,396,000	762,292,000	18,954,000	.....	18,954,000
5 per cent	1,505,250,000	53,875,000	1,559,125,000	.....	.....	.....
6 per cent	.....	37,560,000	37,560,000	.....	.....	.....
Deposits of Credit Institutions	.....	14,935,000	14,935,000	.....	.....	.....
Total	3,267,352,000	2,459,309,000	5,726,662,000	2,237,669,000	860,193,000	3,079,862,000
						8,824,523,000

It will be seen from the table that approximately 35 per cent of the Russian government debt had been incurred for railway construction. Besides, loans for general government purposes also had in a certain measure served productive purposes. Thus it was to some extent through loans that Russia had been able to secure the large gold reserve for her currency. The proceeds of loans had served to meet the deficits of extraordinary budgets, and these included such expenditure as outlay on railway construction, disbursements to relieve the effects of crop shortages, and so on.

The table also shows that the greater part of the pre-war debt was formed by the 4 per cent bonds, most of which were irredeemable. Next in importance were the 5 and 5½ per cent bonds, which chiefly represented war loans.

Domestic and Foreign Pre-War Debts.

The Russian pre-war debt continued to decrease during the War, through the effect of amortization, and it amounted to 8,691,500,000 rubles on the 1st January 1917. Of this total, 3,911,800,000 rubles were loans expressed in terms of Russian currency only, while the remaining 4,779,700,000 rubles were expressed in equivalent terms of foreign currencies as well,—British, French, Dutch, German. The actual extent of foreign holdings of Russian government securities is not strictly indicated either by the amount of loans officially designated as “foreign,” or by that of bonds bearing a denomination in a foreign currency. As a matter of fact, however, foreign holdings included by far the greater part of bonds expressed in terms of foreign currencies and but a small part of the bonds not so expressed.

It is impossible to state with precision the proportions of the Russian debt held in Russia and abroad, and the amount of foreign holdings can only be approximately estimated. A basis for such an estimate may be afforded, for instance, by the data referring to the ascertainable holdings in Russia of bonds issued or guaranteed by the Government. According to the latest available data with regard to such holdings, which were published annually by the Credit Office, they amounted, on the 1st January 1913, to 48 per cent of the total Russian debt. The actual proportion of the debt held within Russia was undoubtedly higher, as a considerable number of bonds are kept in vaults and private safes, and their existence cannot be ascertained.

An approximate estimate of the proportion of the Russian debt held abroad may also be based on data referring to the localities where payments of interest and amortization charges on the government loans were made. These data, as given in the report of the Credit Office on *The Russian Money Market, 1908-1912* (*Russki denezhni rinok 1908-1912 g.*), show the following distribution of payments on account of the government debt:⁷

Year	Payments Effected in Russia	Payments Effected Abroad
	Rubles	Rubles
1909	214,500,000	180,500,000
1910	233,200,000	175,800,000
1911	246,000,000	147,000,000
1912	200,200,000	187,300,000

These figures cannot, however, be taken to indicate the exact proportion of foreign holdings of the Russian debt. The coupons expressed in terms of various foreign currencies represented international values, and they were presented for payment wherever appeared most profitable in view of the exchange situation. One point that is certain, however, is that the proportion of the debt held within Russia was more than 50 per cent of the total.

Debts Guaranteed by the Government.

To obtain the full amount of the Russian debt, the figures of government loans proper, which were given above, should be supplemented by those of the loans which were not entered in the Public Debt Book (*Gosudarstvennaya Dolgovaya Kniga*), but were issued upon the guarantee of the Government. This portion of the debt includes mortgage debentures of the Bank of the Nobility, certificates of indebtedness of the Peasant Land Bank, and guaranteed railway shares and bonds. The outstanding amounts of the first two

⁷ The figures given do not show the distribution of the Russian debt held in the various foreign countries. In several countries a computation of holdings of Russian debt was made both during and since the War. The data of the census taken in France of securities in the hands of French holders are of particular interest in this regard. Those data, as of the 31st January 1920, are summarized in a report submitted to the Prime Minister by M. Herbette, Director of the Administrative Department of the Ministry of Foreign Affairs, and M. Alphand, Director of the Bureau of Private Properties and Interests.

classes of guaranteed loans were given as follows in the *Exposé des motifs* of the Minister of Finance to the budget bill of 1917:

	<i>1st January 1914</i> <i>Rubles</i>	<i>1st January 1916</i> <i>Rubles</i>
Debentures of the Bank of the Nobility	894,000,000	960,000,000
Certificates of the Peasant Land Bank	1,294,000,000	1,353,000,000
	<hr/> 2,188,000,000	<hr/> 2,313,000,000

As regards guaranteed railway loans, data referring to the beginning of 1913 show that the Government had up to that time guaranteed the bond issues of twenty-two railway companies for a total amount of 1,741,490,298 rubles, including 1,043,439,918 rubles of bonds expressed in equivalent terms of foreign currencies, and capital stock issues of four companies, for an aggregate amount of 30,063,014 rubles.

In February 1914 there was issued abroad a consolidated 4½ per cent railway loan of 357 million rubles, guaranteed by the Government. Two domestic guaranteed railway loans were floated during the War: in September 1916, a 4½ per cent loan of a nominal amount of 350 million rubles, issued at 73.75 and redeemable in 81 years; and in September 1917, another 4½ per cent loan of 750 million rubles nominal, issued at 81.50. The 1917 loan was open for subscription on the 3rd, 4th and 5th October and it was considerably over-subscribed. According to preliminary estimates, subscribers were to be allotted 30 per cent of their applications.⁸ This issue was not completed owing to the events that took place in October of that year.

Summary of the Pre-War Debt.

If the last-mentioned issue is disregarded, the total amount of guaranteed loans, including mortgage debentures of the Bank of the Nobility, certificates of the Peasant Land Bank, and guaranteed railway bonds and shares, may be estimated, at the time of the fall of the Provisional Government,⁹ at about 4,800 million to 5,000 million rubles; while the total pre-war debt, both incurred and guaranteed by the Government, amounted at that time approximately to 13,500 million rubles.

⁸ *Vestnik Finansov*, 1917, No. 43.

⁹ 25th October 1917 (Russian calendar).

The service of the government debt proper, of which, as was shown above, 8,825,000,000 rubles were outstanding on the 1st January 1914, amounted in 1913 to 424,378,000 rubles, according to the final report on the budget for that year. Of that total, 389,467,000 rubles represented interest payments, 33,527,000 rubles amortization, and 1,384,000 rubles commission payments to banks and other charges. The total ordinary expenditure in 1913 amounted to 3,094,248,000 rubles.¹⁰ The debt service thus formed 13.7 per cent of the total expenditure.

Russia's Credit Before the War.

During the period since the Russian Government first began to borrow, that is, since the middle of the eighteenth century, its credit had varied considerably. Russia, however, had passed through all her ordeals without forfeiting her honor, and Russian government securities were highly esteemed in the last decades before the War. In the years 1895 to 1897 Russia was able to issue loans at an effective rate of interest of 3.34 per cent; 3½ per cent mortgage debentures of the Bank of the Nobility found a ready market at an issue price of 98; the Russian 5 per cent bonds were quoted higher than the German 3 per cents in 1897. The average rate of interest paid on Russian government loans was 4.77 per cent in 1889, 4.35 per cent in 1892, 3.96 per cent in 1902.¹¹

On the eve of the war with Japan Russian securities were quoted high, as the situation was favorable in respect of finances, currency, and the trade balance. On the 1st January 1904, the 4 per cent *rente* was quoted at 99.50.¹² Under the influence of the War and of the revolutionary movement there soon occurred a considerable fall in the price of government securities, the average quotation for the year of the 4 per cent *rente* being 72. By 1912, however, it had again risen to 92.¹³ In 1913 the yield of the 4 per cent *rente*, which was the basic Russian government security, almost equalled that of the German government issues, and it exceeded the yield of the French *rente* by 0.66 per cent only.

¹⁰ See p. 252, n. 9.

¹¹ J. Ozerov, *Finansovoe Pravo (Financial Law)*, Moscow, 1905, part II, p. 312.

¹² Migulin, *op. cit.*, p. 1166.

¹³ Migulin, *op. cit.*

The high standing of Russian credit was accounted for not only by the excellent condition of the budget and of the currency, but also by the firm reputation Russia had acquired as a trustworthy debtor. Russia had shown the highest integrity in respect of payments on her debts. Thus, during the Crimean War, she was paying interest on that part of her debt which was held in England. She paid in gold the service of the 5 per cent loans of 1815 and 1822, the 5 per cent loan of 1855, and the 4 per cent loan of 1861, which had all been issued in terms of silver currency, and she continued gold payments after 1873, when the price of silver began to fall materially.¹⁴ On only one occasion, during the war of 1812, had Russia found it impossible to comply with certain of her obligations, namely, those of the loan concluded in the Netherlands in 1798. In order, however, to provide compensation to the creditors for that suspension of payments, Russia issued a special loan of 18 million guilders in 1815.

Such were, in brief, on the eve of the War, the composition of the Russian government debt, the capacity of the investment market, and the credit of the Government.

2. GENERAL CONDITIONS FOR WAR LOANS.¹⁵

The cost of previous wars had not been met by Russia through loans only. Increased taxation had been resorted to, to cover part of the war expenses. It cannot be said, of course, that the traditional Russian policy in this respect was similar to that followed by England.¹⁶ Russia had never strictly adhered to the British principle

¹⁴ Migulin, *op. cit.*

¹⁵ The author gratefully acknowledges his deep indebtedness to M. P. L. Bark, Minister of Finance in the Imperial Government from the beginning of the War to the February Revolution of 1917, Professor M. V. Bernatzky, Minister of Finance in the Provisional Government, M. C. E. Sahmen, Director of the Credit Office, M. S. A. Ughet, Agent of the Russian Ministry of Finance in the United States, and M. C. C. Miller, Agent of the Russian Ministry of Commerce and Industry in Japan, for valuable material and advice given him, which has been of great assistance in the preparation of the subsequent chapters. He has also utilized the archives of the Paris Agency of the Russian Ministry of Finance. The publications used, official and other, are referred to in the course of the discussion.

¹⁶ See A. Shingarev, *Voina i Finansy (War and Finance)*, in the Yearbook of the daily *Rech* for 1915.

that sufficient permanent taxation should be imposed during a war to enable all post-war expenditure, including pensions and the debt service, to be covered out of the proceeds of ordinary revenue. While, however, Russia had no such definitely established policy, she did use taxation as a means of financing war. Thus, during the war with Japan, taxes were heavily increased to meet the requirements of the war.

Notwithstanding certain defects and an insufficient elasticity in the Russian taxation system, it would similarly not have been impossible in the War of 1914 to finance the War to some extent through increased taxation. While the pre-war national income may be estimated at 16,400 million rubles, the total burden of taxation, including direct and indirect taxes and the revenues from government property and enterprises, amounted, in 1913, to 2,134 million rubles. The ratio of taxation to national income was thus 13 per cent, and this cannot be regarded either as excessive or as representing the extreme limit of taxable capacity.

Circumstances that Prevented Taxation for War Purposes.

The outbreak of the War, however, was followed by a heavy fall in the ordinary government revenue, primarily as a result of the abolition of the government sale of liquor, first as a temporary enactment for the period of general mobilization, and then definitely and permanently. The War also seriously affected other revenues, especially those from import duties, as the main channels of Russia's foreign trade were interrupted: trade across the German frontier was discontinued from the 19th July 1914;¹⁷ that across the Austrian frontier, from the 24th July; trade with Turkey and through the Dardanelles, from the 20th October. It thus became necessary to devise new sources of revenue to cover the deficits in the ordinary budget, and all the possibilities of taxation had to be strained to this end.

Inasmuch as the increased revenues from taxation during the War were designed to meet the deficit caused by the abolition of the government sale of liquor, they may well be regarded as incidental to that courageous reform, which contributed so greatly, according to the general consensus of opinion, to the development of the national

¹⁷ Dates are given in accordance with the Russian calendar.

economy, the increase in the efficiency of labor, and the promotion of saving. The higher tax revenue, attained through the increase of existing taxes and the enactment of new ones, which should be considered as a part of the reform of taxation resulting from the abolition of the Spirits Monopoly so beneficial to the welfare of the country, may be said, therefore, to have indirectly had a favorable effect upon the success of the domestic war loans and upon the constitution of the fund from which war expenses were met.

Ordinary Expenditure Partly Financed from War Fund.

On the other hand, it should be mentioned that the War Fund, which was fed by the proceeds of loans and of currency issues, did not serve solely to cover war expenses, but was also used for certain purposes that must obviously be classified as ordinary expenditure. These were, firstly, the cost of maintaining the troops and certain military offices on a peace footing, and, secondly, interest payments on Treasury bills. In a tentative estimate of Russia's total government revenue and expenditure from the beginning of the War to the end of 1917, which M. Dementiev made in September 1917, using conjectural and approximate figures for the remaining four months of that year, the combined amount of these two items of ordinary expenditure covered from the War Fund is calculated at approximately 3,000 million rubles, which includes 1,732 million rubles for the maintenance of troops and certain military bureaus on a peace footing, and 1,224 million rubles for interest on Treasury bills. It may be observed that the revenue of the State Bank from the discount of these bills was included as ordinary revenue. It was likewise from the War Fund that were defrayed the import duties on materials purchased abroad by the War Department, the cost of the transportation of troops and army supplies, and certain other expenses whose war emergency nature was open to question. At its session of 17th June 1916, the Duma, on the motion of M. Posnikov, *rapporteur* of the Budget and Finance Committee, recorded its opinion in favor of a decided curtailment of expenditure from the War Fund.

Rules Governing the Authorization of Loans.

Subject to the above limitation, loans contracted during the War went to feed the War Fund, which served to defray expenditure

caused by the War. In normal times government loans, whether designed to meet budgetary expenditure or for extra-budgetary disbursements, had to be authorized in the same manner as that prescribed for the adoption of the state budget, that is, by legislative enactment in accordance with the fundamental laws. These same laws, however, provided that expenditure both for the needs of war and for special preparations preliminary to war, were to be authorized by an act of the supreme executive power, subject to special regulations. Loans to meet war-time requirements were sanctioned in the same manner. The legislative bodies thus had no part in the authorization of war loans, just as they had no jurisdiction over the extraordinary appropriations for war needs. From the date of publication of the mobilization order these appropriations were authorized under the rules of 26th February 1890, which were modified at the beginning of the War,¹⁸ that is to say, by resolutions of the Council of Ministers, subject to the approval of the Emperor.

The credit operations of the Russian Government during the War may be divided into three groups: (1) domestic consolidated long-term loans; (2) domestic short-term loans; (3) foreign loans.

The domestic loans of intermediate maturities (redeemable in ten years or less) have usually been classed as long-term loans, although they are officially designated as "short-term." Apart from the three general classes of loans indicated above, there were the 4 per cent bonds (known as "series") of the Treasury, redeemable in four years, and of which a total amount of 850 million rubles was issued during the War.

¹⁸ S. N. Ilovaisky, *Uchebnik Finansovogo Prava* (*Manual of Financial Law*), 1912, p. 287; Shingarev, *op. cit.*, pp. 409-410.

CHAPTER II

DOMESTIC LOANS

1. DOMESTIC CONSOLIDATED LONG-TERM LOANS AND LOANS OF INTERMEDIATE MATURITIES.

THE long-term loans and those of intermediate maturities issued by Russia from the beginning of the War were as follows :

I	3rd October 1914	5 per cent Domestic Loan of 1914
II	6th February 1915	5 per cent Domestic Loan of 1915
III	24th April 1915	5½ per cent Domestic Loan of 1915
IV	28th October 1915	5½ per cent Domestic Short-Term War Loan of 1915
V	26th February 1916	5½ per cent Domestic Short-Term War Loan of 1916, first issue
VI	10th October 1916	5½ per cent Domestic Short-Term War Loan of 1916, second issue
VII	27th March 1917	5 per cent Domestic Long-Term Loan (Liberty Loan of 1917)

Terms of the Several Issues.

The first consolidated domestic war loan was issued in the third month of the War, in accordance with an Imperial Ukase of 3rd October 1914. It was for a nominal amount of 500 million rubles and bore a nominal rate of interest of 5 per cent. The price of issue was fixed at 94, *plus* accrued interest calculated at 5 per cent *per annum* from 1st September 1914 to the date of payment. The loan was permanently exempted from the tax on income from investments. The provisions with regard to amortization were as follows: the loan was redeemable in 49 years by annual drawings, of which the first was to take place in November 1916. Up to 1st March 1925, no portion of the loan was redeemable before maturity, by way of increased drawings, conversions, or reimbursement. In the event of new government loans being issued before 1st January 1917, the holders of bonds of the 5 per cent domestic loan of 1914 were to have preference for subscriptions to such new loans. The loan was floated by public subscription, and it was issued in denominations of 50, 100, 200, 500, 1,000 and 5,000 rubles. In previous

Russian government loans the lowest denomination ever issued had been 100 rubles.¹

In 1915, three consolidated war loans were issued.

The 5 per cent domestic loan of 1915, authorized by a decree of 6th February 1915, was issued for the same nominal amount and on precisely the same terms as the 5 per cent domestic loan of 1914.²

A ukase of 24th April 1915, authorized the issue of a 5½ per cent loan designated as "The Second Domestic Loan of 1915," of a nominal amount of 1,000 million rubles, in denominations of 100, 500, 1,000, 5,000, and 10,000 rubles. A special feature of this loan was that the interest rate of 5½ per cent was to be paid on it until 1st May 1921 only, after which date it was to be automatically converted to a 5 per cent rate. The bondholders were given the right, however, of opting, on 1st December 1920, for the reimbursement of the capital value of their bonds, and the reimbursement was to be effected, in the case of such options, on 1st May 1921. Redemption of the loan was to begin in 1921, by annual drawings. Until 1st May 1927, the Government was to redeem none of the bonds before their maturity. The annual amortization was fixed at 0.132161 per cent of the nominal capital of the bonds outstanding in July 1921, with an additional 5 per cent of the total amount of capital redeemed previous to each drawing. The coupons of this loan were exempt from income tax.³

By a decree of 28th October 1915, the Minister of Finance was empowered to issue a 5½ per cent war loan of a nominal amount of 1,000 million rubles. This loan was of the short-term type, as it was made redeemable in November 1925. The price of issue was fixed at 95, and denominations were provided of 50, 100, 500, 1,000, 5,000, 10,000, and 25,000 rubles.⁴

In 1916, two consolidated war loans were issued. The ukase of 26th February 1916, empowered the Minister of Finance to issue a 5½ per cent war loan of a total nominal amount of 2,000 million rubles, in two series of 1,000 million rubles. This loan of 1916 was also of the short-term type, being redeemable on 1st February

¹ *Vestnik Finansov*, 1914, No. 43.

² *Ibid.*, 1915, No. 9.

³ *Ibid.*, 1915, No. 18.

⁴ *Ibid.*, 1915, No. 45.

1926. The price of issue was fixed at 95, and the denominations issued were of 50, 100, 500, 1,000, 5,000, and 25,000 rubles. The coupons of these bonds were exempt from income tax, and bonds of the 5½ per cent war loan of 1915 were accepted at their price of issue in payment for subscriptions to it.⁵

The second short-term war loan of 1916 was issued in virtue of a decree of 10th October 1916, on the same terms as the preceding loan, that is, carrying interest at 5½ per cent and with a ten-year maturity. It was for a nominal amount of 3,000 million rubles, issued in three series of 1,000 million rubles each.

Finally, the last consolidated war loan was the 5 per cent long-term loan issued in 1917, after the Revolution, at 85, and designated "The Liberty Loan of 1917." Subscriptions to this loan were opened for an unlimited amount, and it was to run for 55 years and to be redeemed by 49 annual drawings beginning in December 1922.⁶

Results of the Subscriptions.

We show in the table below, for each of the six consolidated loans above described, both the nominal amount of the capital and the actual sum realized by the Government. The figures relating to the loan issued under the decree of 10th October 1916, and to the Liberty Loan, have never previously been published in final form, and we owe them to the courtesy of Professor M. V. Bernatzky, who held the office of Minister of Finance in the last period of the Provisional Government:

⁵ *Vestnik Finansov*, 1916, No. 11.

⁶ In addition to the six issues enumerated above, there were issued during the War 10,000,000 rubles of 4 per cent Government Stock (*Gosudorstvennaya renta*).

Russia's Domestic War Loans.

	<i>Nominal Amount</i> <i>Rubles</i>	<i>Actual Proceeds</i> <i>Rubles</i>
5 per cent Domestic Loan of 1914	500,000,000	466,612,000
5 per cent Domestic Loan of 1915	500,000,000	462,154,000
Second Domestic Loan of 1915	1,000,000,000	979,975,000
5½ per cent Short-Term War Loan of 1915	1,000,000,000	935,830,000
5½ per cent Short-Term War Loan of 1916 (first issue)	2,000,000,000	1,884,551,000
5½ per cent Short-Term War Loan of 1916 (second issue)	3,000,000,000	2,799,767,000
Liberty Loan (subscription results to 2nd October 1917)	4,000,000,000 ⁷	3,841,400,000 ⁸
4 per cent Government Stock	10,000,000	8,000,000
Total	12,010,000,000	11,378,289,000 ⁹

What appears most striking when the consolidated war loans contracted by the Russian Government within the country are examined, is the magnitude of the sums withdrawn from the market through those loans, both for long-term and for short-term investments. The significance of these sums will appear more clearly if they are considered in connection with the pre-war growth of the investment market, in Russia and in the world at large. The annual issues of se-

⁷ The amount of the capital had not been fixed, but we assume it as equal to 4,000 million rubles; of this, 1,000 million rubles were allotted to the investment fund of the government savings banks.

⁸ According to data relating to 2nd October 1917, the subscription yielded 1,617 million rubles at the State Bank and its subsidiaries, and 1,324,400,000 rubles at private banks, while 900 million rubles were allotted to the investment fund of the government savings banks.

⁹ The figure given above (11,378,289,000) does not quite agree with the estimate of A. M. Michelson (11,408,200,000). One should bear in mind that under the circumstances in which Russia ended the War, accurate and final estimates of her war expenditure and debt are not available. Official documents on the one hand, and on the other valuable works of such authors as Dementiev, Mukoseev, etc., who used unpublished documents frequently quote data which slightly disagree. Materials from different sources have been used in various parts of this work in accordance with the subject discussed, and this may occasionally lead to a lack of coördination in data which it is not always easy to explain.

curities, government and private, in all markets combined and in Russia, had been as follows:¹⁰

Year	All Markets (millions of rubles)	Russia
1890-1894 (annual average)	3,100	...
1895-1899	4,100	...
1900-1904	5,800	...
1905-1909	8,000	547
1910	9,900	714
1911	7,300	980
1912	7,500	863
1913	7,900	...

Private Issues During the War.

It should be added that the floating of the consolidated government loans was not accompanied by a discontinuance of the issue of private commercial and industrial securities.¹¹ From 1915 onwards every concern of any importance hastened to utilize the favorable moment to increase its capital. The moment was indeed very favorable for private capital issues, as dividend-bearing securities were greatly benefited by the abundance of money, the activity of the stock exchange, and the fear of a further depreciation of the paper currency. New funds were required for the expansion of production or for the building up of new industries, as also for the purpose of all kinds of financial combinations, mergers, etc. The first undertakings to increase their capital were those working for national defense, and they were followed by companies engaged in such industries as were yielding especially high profits, as, for instance, the sugar industry, the tobacco industry, etc. The general nervousness that preceded the Revolution of March 1917 affected the investment market also, and the issues decreased in the month of February of that year. Immediately after the Revolution the business classes were full of hopes, destined never to be realized, and buoyant with energy. Plans were conceived on an ambitious scale, and these entailed new capital issues, which showed a sudden great increase in the month of April. As early as May, however, a change of attitude was perceptible, and a sharp decline in private issues set in.

¹⁰ *Exposé des motifs (Obyasnitelnaya Zapiska)* to the Budget Bill for 1915, Part II.

¹¹ See *Chastnaya Emissionnaya Deyatel'nost (Economic Activities of Private Firms)* in *Vestnik Finansov*, 1897, No. 188.

As regards the issues of mortgage loans and of guaranteed railway bonds during the War, we have referred to these in the preceding pages.

In 1917, when the difficulties encountered in placing the Liberty Loan became apparent, it appeared to the Government that the successful flotation of internal war loans was imperilled by the large amount of private issues. The official organ of the Finance Department wrote as follows on the subject:¹²

“Considerable funds are still absorbed by private issues, chiefly those of various industrial concerns. According to data published as of the beginning of 1917, there were quoted at that time on the Petrograd Stock Exchange the shares of 271 industrial undertakings, with an aggregate capital of 2,175 million rubles. That amount has doubtless greatly increased since, as new issues of dividend-bearing securities have lately been floated almost daily. At a special conference on private issues of capital, which had been called by the Minister of Finance, it was reported that the new joint-stock companies authorized in the first nine months of 1917 had an aggregate capital of 1,900 million rubles. Moreover, old organizations had been authorized to issue additional shares and bonds to an amount of about 1,500 million rubles. In view of the dimensions thus assumed by private issues, which absorb the free investment funds available in the market, it has been decided to proceed hereafter with the utmost caution in this respect.”

Yield to the Investor.

Another point of interest in connection with the Russian consolidated war loans is the comparatively low yield that they brought to the investor. The table below shows, for each of the seven loans, the nominal interest rate and the price of issue:

<i>Loan</i>	<i>Interest Rate</i>	<i>Price of Issue</i>
3rd October 1914	5	94
6th February 1915	5	94
24th April 1915	5½	99
28th October 1915	5½	95
26th February 1916	5½	95
10th October 1916	5½	95
Liberty Loan of 1917	5	85

¹² *Vestnik Finansov*, 1917, No. 42.

These figures indicate that, in spite of the large amounts that had to be secured through loans in the space of a few years, Russian government credit was not impaired to any extent that could be regarded as alarming. The actual yield to the investor, not including the redemption premium, was at the rate of 5.318 per cent for the first two loans, 5.555 per cent for the third loan, 5.789 per cent for the fourth, fifth, and sixth loans, and 5.88 per cent for the Liberty Loan. The fact that the Government was straining its credit by repeated resort to war loans did not lead to such a rise in the rate of interest as would appear excessive either when compared with pre-war loans or with the loans contracted during the War by other countries.¹³ Thus, for instance, the German Imperial war loans (*Deutsche Reichsanleihen*) were issued at 5 per cent and at a price of issue that ranged from 97½ to 99.¹⁴ The French long-term war loan of 1915 was issued at 87.25, and carried interest at 5 per cent, which meant an actual yield to the holder of 5.73 per cent; the 1916 loan was concluded on about the same terms (interest rate at 5 per cent and price of issue at 87.50), and that of the 9th November to the 16th December 1917, at 4 per cent, with a price of issue of 68.60, that is, an actual yield of 5.88 per cent.

There is always a close relationship between the rate of discount, the rate of interest on Treasury bills, and that on long-term loans. Normally it is the first that is to a great extent the determining factor. But during the War, in Russia the interest on long-term loans was determined primarily by the rate paid by the Government on Treasury bills, which was 5 per cent. The supply of commercial bills for discounting was greatly reduced, and the discount rate was directly influenced by that paid on Treasury bills. The drop in the amount of commercial bills held by the banks was estimated approximately at 10 per cent in 1914, at 50 per cent in 1915, at 75 to 80 per cent in 1916.¹⁵ No one competed with the Government for the floating funds of the market. Treasury bills took the place, to a great extent, of the commercial loan and discount material, and, as a result, the rate of interest on Treasury bills now played the part

¹³ *Vestnik Finansov*, 1916, No. 11.

¹⁴ G. Jèze, *Dépenses publiques, Théorie générale du Crédit Public*, Paris, 1922, pp. 388-393.

¹⁵ *Russki denezhni rinok v 1916 godu* (*The Russian Money Market in 1916*), in *Vestnik Finansov*, 1917, No. 3.

that had previously been played by the rate of interest on private credit operations. The latter changed but little; in 1916, for instance, it stood at $5\frac{7}{8}$ per cent in January to February, at $5\frac{3}{8}$ per cent in March, at $5\frac{1}{2}$ per cent in April, and at $5\frac{3}{4}$ per cent, without any fluctuations, from May to December.

The Effect of Currency Issues.

This circumstance accounts to some extent for the advantageous terms on which the Government was able to place the long-term war loans and those of intermediate maturities. The primary factor, however, that enabled the Government to pay a low rate of interest on short-term loans was the abundance of money in the country, a circumstance but for which, moreover, such enormous sums would not have been available for investment in consolidated loans.

Inasmuch as the abundance of money was based upon the issues of paper currency by the Government, it is the extent of these paper issues that affords an explanation, both of the possibility of issuing long-term and intermediate loans on so large a scale, and of the favorable terms on which the Government was in a position to do it. The difficulties encountered in floating the Liberty Loan of 1917 were due neither to the insufficiency of the terms of the loan as an inducement to investors, nor to the shortage of investment funds, but, as we shall see below, solely to the political unrest that preceded the October upheaval.

A description and analysis of the paper currency issues in Russia during the War are, however, beyond the scope of our survey, as they form the subject of a special monograph of this volume.¹⁶

The Various Sources of Funds Invested in War Loans.

In Russia, as in other countries, the accumulation of funds for investment, the building up of the reservoir that served to feed the war loans, was a process directly dependent upon the disbursement of moneys by the Government for the conduct of the War. The millions of paper rubles issued by the Government were expended in great measure on contracts for the supply of munitions and army equipment, on the maintenance of the army and navy, and on al-

¹⁶ See M. W. Bernatzky's monograph in this volume.

lowances to soldiers' families. The greater part of these billions flowed in converging streams to a few points, the banks, where they were carried to the credit of particular accounts, whether of corporations or individuals. The further course taken by these moneys varied. Only a certain portion entered the circulation, mainly in the shape of wage payments. Another portion formed profits and savings. Some of them, finally, served to meet capital outlay or provided the working capital of various concerns, or paid for the supply of coal and raw materials, for transport, etc. As the individual undertakings are closely interrelated and their mutual accounts are often settled directly, and as their funds are kept on deposit in banks, it follows that a considerable portion of the amounts spent by them either on capital outlay or for current expenses do not enter into the circulation nor leave the banks, but are merely transferred from one account to another. The stronger the development in a country of the clearing system and of payment by check, the greater will be the proportion of the funds that can thus be made available for profitable investment and to supply the material for war loans, both short-term, and even, to some extent, long-term. The several concerns and persons may invest in those loans not only the funds standing to their credit at the banks, but even such funds as they expect to have in the future. This is effected by means of loans which their banks make to them on the security of the bonds that they wish to purchase. The banks again, if they have not sufficient funds available to make such loans, borrow from the State Bank. Operations of this kind, when practised on a large scale, produce a credit inflation in the country, which aggravates the effects of the currency inflation upon economic life. It may be observed, however, that the abundance of free funds in the Russian market was such that advances on war bonds as collateral did not assume considerable dimensions, and the volume of credit inflation was therefore limited.

The funds that accumulate at the banks in the shape of deposits and current accounts thus form one of the principal elements of the resources available for investment in war loans. To this should be added, of course, such sums as the banks may themselves invest in war loans out of their own funds.

Another portion of the moneys which the Government throws upon the market in the shape of paper currency flows, ultimately, into

the government savings banks. This class of funds is different from that previously discussed. It consists chiefly of savings proper, although we shall see below, when we analyze in greater detail the operations of the savings banks, that a certain portion of the funds deposited in those institutions during the War represented the working capital of commercial and industrial undertakings of small or medium size.

When the Government accepts deposits in its savings banks, it assumes the obligation to pay interest to the depositors at a stipulated rate. It has, accordingly, to endeavor to invest profitably the funds that accumulate in those institutions, and it is thus enabled to allot considerable amounts of the war loans to the investment fund of the savings banks. On the other hand, apart from their deposits, savings banks also own certain funds, and they may invest some of these in war loans, just as other banks do.

However, bank accounts and savings deposits do not absorb the total amount of currency issued. A considerable portion of those issues may form unproductive hoards in private hands. This may happen, for instance, when the events of the war or political unrest within the country incline the public to keep all or part of their money rather than entrust it to banks and savings institutions. The same consequence may follow if the government disbursements for the requirements of the army or of the interior are of such a nature, or if the payments of allowances to soldiers and to their families are of such amounts, as to bring about a concentration of the currency in the hands of those classes of the population which are not accustomed to use the services of banks or of savings institutions and keep whatever moneys they save in their private safes, chests, or other hoarding places.

Finally, there is a portion of the currency issued which is tied up in circulation. This portion is the most difficult to draw on for investment in war loans, and its amount may grow under the influence of three factors. In the first place, an advance in the cost of living may result in a greater quantity of money being required to maintain the same standard of living. The second factor is the depreciation of money, which has a dual effect, as, on the one hand, a greater amount of currency is required for the same amount of business transacted, while, on the other, it becomes unprofitable and danger-

ous to keep the money for long, and there arises an incentive to exchange it as quickly as possible for values that are not liable to depreciate so rapidly. Finally, consumption may increase as a result of the accumulation of war profits in the hands of certain groups of the population.

What has been said above may serve as an indication of the measures that would constitute the most advantageous policy in the matter of securing funds for investment in war loans. Some of these measures, such, for instance, as might be designed to promote the growth of a clearing system or of payment by check and thus to release a larger proportion of the working capital now tied up, or the education of the masses of the people to the use of facilities afforded by banks and institutions for small credit, or other such measures, ought to be undertaken in peace-time, and their enactment might then serve not only to further the economic progress of the country in normal times but also to improve its financial preparedness for war.

On the other hand, the preceding discussion will give an idea of the difficulties with which the Russian finance department was confronted in endeavoring to carry out its borrowing operations as successfully and as effectively as possible; for it was working in a country where the mass of the people were culturally backward and unaccustomed to the services of banks, where the use of checks and the clearing arrangements were little developed. It was, moreover, faced with a rapidly depreciating currency and, following upon the Revolution of February 1917, with a steadily growing demand from the masses of soldiers and workers for increases of wages and allowances, compliance with which resulted in a vast inflation of the earnings of wage-earners and peasants. Under such conditions, it was natural that the requirements of the commercial turnover and the unproductive hoarding of considerable amounts of money by certain groups of the people should absorb a large portion of the currency issues and thus create a situation unfavorable for investment in war loans. It is this situation which accounts for the high proportion of war expenditure that had to be met by the issue of paper currency.

We shall now proceed to examine in greater detail the extent to which funds for investment in the Russian war loans were drawn from these reservoirs.

Part Played by the State Bank and by Commercial Banks.

With the exception of the period immediately following upon the mobilization, the growth of deposits in banks was uninterrupted during the War, in spite of the fact that these deposits were extensively drawn on for subscription to war loans. The increase of deposits at the State Bank and at commercial banks is shown in the following table:¹⁷

Deposits and Current Accounts.

<i>Date</i>	<i>State Bank</i>	<i>Joint-Stock Banks, Mutual Credit Societies, and Municipal Banks</i>
	<i>Rubles</i>	<i>Rubles</i>
1st July 1914	238,000,000	3,591,000,000
1st January 1915	438,000,000	3,519,000,000
1st July 1915	745,000,000	4,105,000,000
1st January 1916	948,000,000	4,346,000,000
1st July 1916	1,290,000,000	5,748,000,000
1st January 1917	1,795,000,000	7,566,000,000
1st July 1917	2,199,000,000	8,537,000,000
1st September 1917	2,455,000,000	8,594,000,000

After the March Revolution of 1917, the accumulation of capital and the growth of savings of the business classes slowed down, as will be seen from the following table of average monthly increases in deposits:

	<i>State Bank</i>	<i>Joint-Stock Banks and Other Credit Institutions</i>
	<i>Rubles</i>	<i>Rubles</i>
Last pre-war year	200,000	37,900,000
First war year	39,200,000	42,800,000
Second war year	52,800,000	136,900,000
Third war year:		
Before the Revolution	61,400,000	296,700,000
After the Revolution	112,200,000	78,700,000

The State Bank not only played a leading part as an agency for the issue of the consolidated loans, but its direct financial assistance to the Treasury was also of very great importance. The last avail-

¹⁷ *Vestnik Finansov*, 1916, No. 11; 1917, No. 34. S. Prokopovich, *Voina i Narodnoe Khozyaistvo* (*The War and National Economy*), p. 113.

able report of the State Bank, that of the year 1916, describes the rôle played by the State Bank in floating war loans.¹⁸

The indirect assistance given by the State Bank to the Treasury consisted in 1916, as in the preceding years, in a very active participation in the financing of the war loans issued on the home market. Its position was in this respect different from that of the central banks in other belligerent countries, where that function was assigned to organizations specially created for the purpose (such as the war loan *Kassen* in Germany and in Austria-Hungary), and where private commercial banks played a part in the floating of war loans which they did not play in Russia. The principal burden of the financing of internal loans in Russia was borne by the State Bank. In 1916, in order to facilitate the floating of the two issues of that year and the prompt payment of their proceeds into the Treasury, the State Bank granted the syndicate of private banks which had taken charge of part of those issues favorable credits on a special account, accepting the bonds issued as collateral. The State Bank also granted loans to other classes of subscribers on the security of those bonds. It is impossible to ascertain the precise amount of advances of this nature made by the State Bank, as they are not set forth separately either in the report of the Bank for the year 1916 or in its balance sheets, being included under the general heading of advances on securities. A certain approximate idea of the extent of the advances made by the State Bank on war loans may, however, be derived from the figures of transactions and balances relating to all advances on securities, of which the war loan operations formed a very considerable portion.

In the statement of accounts of the State Bank as of the 16th October 1917, advances on securities figure for a total sum of 1,506 million rubles, as compared with 129 million rubles, on the 16th July 1914. The advances granted by the Bank were, however, in most instances for short terms, and the statements of account do not, therefore, show fully the extent of the operations of this kind effected by the Bank. The data contained in these statements would have to be supplemented by those relating to the volume of annual transactions, and these are not available for the war period as a whole. The annual report of the State Bank for 1916 shows a total

¹⁸ *Vestnik Finansov*, 1917, No. 37.

of advances on securities of 4,035 million rubles as compared with 3,100 million rubles in the preceding year. The greater part of these advances represented credits opened to private banks, which amounted to 3,655 million rubles in 1916, as compared with 2,829 million rubles in the preceding year. These figures show that the disbursements of the State Bank in connection with the financing of war loans were for short terms. As to the results of the assistance thus given by the State Bank, they are attested by the total amount of the $5\frac{1}{2}$ per cent war loans floated in 1916, which exceeded 4,500 million rubles.

In addition to assisting the issue of war loans by the grant of credit facilities to subscribers, the State Bank had charge of the greater part of the administrative and technical work involved in the loan operations. Thus, in 1916, according to the annual report for that year, the Bank completed the sale of the $5\frac{1}{2}$ per cent war loan of 1915 and issued the two $5\frac{1}{2}$ per cent war loans of 1916. The subscription to the first issue was open from the month of March to the end of May, and it entailed the sale of 4,629,500 bonds, for a total nominal amount of 2,000 million rubles, which subscriptions to the second issue were opened on the 1st November 1916, and were not closed until February 1917, the sales aggregating 5,955,700 bonds, for a total nominal capital of 3,000 million rubles. These issues were made through a syndicate of private banks and of the State Bank, the former having underwritten three-fifths of each loan, while the State Bank took over, on commission basis, the remaining two-fifths, which it sold with the aid of institutions associated with it. The State Bank had charge, in addition, of the delivery of the bonds, whether sold through the syndicate of private banks or through other agencies, as well as the general supervision and direction of the campaign in support of the issues carried on at the various institutions.

To assure the success of such vast operations, the State Bank had to resort to certain measures designed to popularize the loans and to simplify and improve the procedure of subscription. In the first place, the number of offices where subscriptions were accepted was increased, with a view to making them more accessible to the public at large. Furthermore, subscribers to the war loans were granted various privileges, in the matter of the custody of the bonds

free of charge, of advances on security of the bonds, etc. The bonds were printed in advance of the subscription, to meet the demand of such subscribers as wished to receive their bonds immediately on payment. To popularize the loans, a campaign of education was conducted through the press, and by colored posters and popular pamphlets; in 1916, more than one million posters and over ten million copies of pamphlets were thus distributed. The coöperation of influential persons in the various localities was enlisted, and an All-Russian Committee for Civic Aid to the War Loans was organized.

The part taken by the State Bank in the issue of Treasury bills will be discussed below, in the section dealing with the short-term war issues. As regards the acquisition of war loan bonds by the State Bank directly from its own funds, its statements of account do not reveal any considerable operations of this nature. The statement of the Bank as of the 16th July 1914 shows total holdings of securities to an amount of 103 million rubles, while these holdings amounted to 181 million rubles on the 16th October 1917.

The data available with regard to the part played by private banks in the flotation of the several consolidated issues are more complete, thanks to a statement published by the Congress Board of commercial banks on the subject.¹⁹ According to this statement, the following amounts of each war loan were sold by the State Bank and by the Syndicate of commercial banks:

<i>Loan</i>	<i>Nominal Amounts Sold</i>	<i>Nominal Amounts Sold</i>	<i>Total Amount</i>
	<i>by the State Bank</i>	<i>by the Syndicate</i>	
	<i>Rubles</i>	<i>of Private Banks</i>	<i>Rubles</i>
		<i>Rubles</i>	
I	200,000,000	300,000,000	500,000,000
II	283,000,000	217,000,000	500,000,000
III	317,000,000	683,000,000	1,000,000,000
IV	650,000,000	350,000,000	1,000,000,000
V	1,317,000,000	683,000,000	2,000,000,000
VI	1,200,000,000	1,800,000,000	3,000,000,000
Total	3,967,000,000	4,033,000,000	8,000,000,000

The part played by commercial banks in the floating of the Liberty Loan of 1917 was even more considerable, and if that loan is

¹⁹ *Torgovo-Promishlennaya Gazeta*, 1917, No. 146.

included, the total amount of war loans issued through the syndicate was 6,200 million rubles.

The aggregate transactions in securities figure for very large amounts in the consolidated accounts of the joint-stock commercial banks. Unfortunately, the statements of the commercial banks do not show separately, any more than those of the State Bank, the portion of those transactions which relates to war loan bonds, and it is impossible to ascertain what proportion these bonds form of the general total, as large amounts of industrial securities are included under the headings of advances and debts of correspondents. On the 1st February 1917, with an aggregate of assets of 10,108 million rubles for all commercial banks, the aggregate amount of securities in the portfolios of the banks was as follows:

	<i>Rubles</i>
Securities owned by the banks	466,000,000
Loans guaranteed by the deposit of securities	31,300,000
Loans (on call) on collateral	1,094,100,000
Correspondents' accounts secured by collateral	1,800,300,000

In order to get a more precise idea of the sums advanced on the security of war loan bonds, it would be necessary here too, as in the case of the State Bank, to supplement the figures given in the statements by data relating to the total of annual transactions. No such data are, however, available.

Part Taken by State Savings Banks.

Unlike the amounts deposited in the State Bank and commercial banks, which to a great extent represent working capital, deposits in the State savings banks consist for the greater part of savings. It is true that deposits held by these institutions may to some extent represent the working capital of small commercial and industrial enterprises or even of some concerns of medium size. As far as the Russian savings banks are concerned, this was particularly a consequence of the resolution of the Council of Ministers, of the 7th July 1915, approved by the Emperor, which abolished the maximum limit of 1,000 rubles previously in force for individual deposits, and authorized all autonomous and central savings banks, over 3,300 in number and including the largest institutions, to accept deposits to

an unlimited amount. Some light might be thrown on this point by the reports of the Central Board of Savings Banks, for they contained information with regard to the distribution of deposits according to the occupation of the depositors. The publication of these reports, however, was always much delayed, and the latest available relates to the year 1915. According to that report, the balance of deposits held by all savings banks for the account of persons belonging to the trading class amounted to 283,733,000 rubles in 1913, as compared with 149,527,000 rubles in 1915; the proportion of deposits held for the account of that class of depositors to the total deposits in all savings banks increased from 9.6 per cent in 1913 to 12.5 per cent in 1915.

The question whether the Government was justified in investing savings bank deposits in war loans was the subject of some discussion in Russian economic publications. It was pointed out in this connection, in particular, that while one of the purposes of the war loans was to withdraw from circulation a proportion of the currency issued, the sums accumulated in the savings banks in the shape of deposits had already accomplished that purpose.

M. A. Guriev expressed the following opinion:

"In Russia, the war loans absorbed those sums which had proved superfluous in circulation and had been deposited in savings institutions. The war loans thus laid hold of a currency that had been rendered 'harmless' for purposes of circulation, and transformed it into a currency that was 'harmful,' inasmuch as the moneys obtained by the Treasury through loans were spent by it in the market."

We regard this view of war loans as entirely unjustified. Deposits in savings banks must yield a definite revenue to the depositors, and they have, therefore, to be profitably invested. It is but natural that the Government should accordingly invest in war loans some of the amounts deposited. When considered from the point of view of the effects upon the amount of currency in circulation, there is a material difference between the accumulation of sums lying at call in savings banks and their consolidation into long-term loans or loans of intermediate maturities. When the Government lays hold of a portion of the outstanding currency by means of a loan and then puts the amount thus obtained in circulation, it thereby reduces its currency issues by the same amount. This method of proceeding is

precisely the same as if the Government were to burn the currency obtained through a loan and then obtain the required funds through a new issue of notes of the same amount.

We will now briefly describe the part played by the Russian State savings banks in the flotation of the consolidated loans.²⁰

The War resulted in a very rapid growth of the activities of the savings banks. While the annual increase of deposits in those institutions averaged about 100 million rubles a year in the years immediately before the War, and less than 42 million rubles in the decade preceding 1914, the increase during the War was as high as 200 million rubles in 1914, 900 million rubles in 1915, and 2,112 million rubles in 1916. The net growth of deposits from 1st January to 1st October 1917, amounted to 1,680 million rubles, in spite of the unsettled conditions.

The following table shows the balances of deposits in savings banks, both in cash and in securities, at various dates before and during the War:

	<i>Deposits in Cash</i> <i>Rubles</i>	<i>Deposits in Securities</i> <i>Rubles</i>	<i>Total Deposits</i> <i>Rubles</i>
1st January 1913	1,595,000,000	318,000,000	1,913,000,000
1st January 1914	1,685,000,000	349,000,000	2,034,000,000
1st January 1915	1,835,000,000	401,000,000	2,236,000,000
1st January 1916	2,449,000,000	664,000,000	3,113,000,000
1st January 1917	3,890,000,000	1,336,000,000	5,225,000,000
1st October 1917	4,916,000,000	1,989,000,000	6,905,000,000

According to the last statement submitted to the Minister of Finance by the Central Board of Government Savings Banks, which related to the first week of October 1917, the increase of deposits in that week amounted to 25,600,000 rubles, as compared with an increase of 25,800,000 rubles in the corresponding period of 1916.

While the volume of the deposits that accumulated in the savings banks during the War may be explained by the expansion of the currency issues, the fact itself of the inflow of deposits is accounted for by the acquisition of enormous resources by those groups of the population from which depositors are normally recruited, and which

²⁰ The data referring to this question were obtained partly through the courtesy of M. V. Bernatzky, and partly from the article *Voina i sberegatel'nyia kassi* (*The War and the Savings Banks*), published in *Vestnik Finansov*, 1917, No. 43.

had not, before the War, had the free disposal of such large amounts. The concentration of large sums of money in the hands of peasants, workers, small landowners, small merchants and manufacturers, was the result of a number of causes: the abolition of the government sale of liquor, which enabled the poorer classes of the people to effect very large savings; the allowances paid to the families of mobilized soldiers, of which the total amount to the 1st October 1917 was over 3,500 million rubles; the sales of grain, forage, meat, hides, etc., for the needs of the army, and the hire of horses and other services required by the Government; the large earnings of factory workers, etc.

This inflow of deposits enabled the State savings banks to invest in war loans, from the 1st July 1914 to the 1st October 1917 a total of 3,165,496,900 rubles (nominal value of the capital purchased), which amount included 3,020,496,900 rubles of consolidated loans.

The war loan bonds purchased were distributed as follows between the several issues:

<i>Loan</i>	<i>Rubles</i>
5 per cent Loan of 1914	49,536,400
5 per cent Loan of 1915	160,914,900
5½ per cent Loan of 1915	196,020,600
5½ per cent Short-Term Loan of 1915	189,370,000
5½ per cent Short-Term Loan of 1916, first issue	316,655,000
5½ per cent Short-Term Loan of 1916, second issue	113,000,000
5 per cent Liberty Loan of 1917	1,000,000,000

Before the War, all the securities purchased by the investment fund of the savings banks since their creation had totalled (to the 1st January 1914) 1,906 million rubles in nominal value. Of that total, mortgage debentures of the Bank of the Nobility and of the Peasant Land Bank had figured for 756 million rubles; bonds of private corporations, for 407,800,000 rubles; while government bonds proper had been purchased to a total amount of 742,300,000 rubles only.

The direct contribution made by the State savings banks to the success of government borrowings during the War was thus more than three times the total amount of their investments in government loans during the entire period of their existence prior to the War, if only their subscriptions to consolidated war loans are con-

sidered, and four and a half times that amount if subscriptions to non-consolidated short-term issues are included.

In addition to directly investing their funds in the various war loans, the savings banks assisted in the sale of the loans to the public. Up to the 1st October 1917 the following amounts were sold with their assistance:

	<i>Rubles</i>
5½ per cent Loan of 1915	189,600,000
5½ per cent Loan of 1916, first issue	316,900,000
5½ per cent Loan of 1916, second issue	350,000,000
5 per cent Liberty Loan of 1917	556,000,000
Total	1,412,500,000

Private Hoards.

We have already indicated the causes that led to the accumulation of considerable sums of money during the War in the hands of the poorer classes. All the money thus accumulated did not find its way into the savings banks. A considerable proportion, especially of the money held by persons of a low standard of education, with little experience of the services of banks and of savings institutions, was kept in chests, etc. Hoarding was a common practice particularly among the peasants as they were unable to exchange their money in the markets of the towns for the goods they required for their farms and households.

Measures to Popularize the War Loans.

It was, of course, to the interest of the Government to utilize the savings which thus remained unproductive by securing their investment in war loans. In order that the loans, which ran into thousands of millions of rubles, might be effectively distributed, it was essential to obtain the participation of all the people in the operation. The arrangements for the issue of the loans had to be continually expanded, made more elastic, and better adapted to the conditions under which subscriptions were accepted.

When the first war loan was offered for subscription,²¹ the only places where subscriptions were accepted were the State Bank with

²¹ *Vestnik Finansov*, 1916, No. 11.

its branch offices and agencies, the joint-stock commercial banks, and the six largest private banking houses. When the second and the third war loans were floated, the permanent sub-treasuries were added to those agencies. Then, for the issue of the fourth loan, the agencies accepting subscriptions included, in addition, savings banks, etc., and paymasters' offices in fortresses and at the front. Finally, the subscriptions to the fifth war loan were accepted also at municipal banks and the offices of mutual credit societies.

A development of particular interest was the increase in the number of savings banks during the War, which was in direct connection with the increase in deposits and with the issue of war loans.

A law of the 23rd October 1915 provided for the establishment of 4,971 post offices in rural localities, all of which had savings departments. In addition, under an arrangement with the Holy Synod, local priests were placed in charge of savings operations, and 2,000 parochial savings institutions were authorized to be opened by the end of September 1917. Finally, the network of savings banks was further extended by the establishment of agencies at the branch offices of the Bank of the Nobility and of the Peasant Land Bank, as well as at the grain storehouses of the State Bank. As a result of these measures, the number of savings banks increased as follows during the War:

	<i>Central Banks and their Branches</i>	<i>Affiliated Agencies</i>	<i>Total</i>
1st July 1914	2,339	6,445	8,784
1st October 1917	3,302	11,900	15,202

In the thirty-nine months of the War there were thus opened in Russia almost as many savings banks as in the seventy-five years that had elapsed since they were first established.

The mobilization of small savings for investment in war loans made it necessary to extend the period during which the loans were open for subscription. This had also, of course, to be lengthened in consequence of the increased amount of the successive issues: the first and the second war loans were for nominal amounts of 500 million rubles each; the third and the fourth loans, for 1,000 million each; the fifth, for 2,000 million; the sixth, for 3,000 million; the seventh, for an unlimited amount.

The subscription periods for the successive loans were as follows:

<i>Loan</i>	<i>Subscription Period</i> (number of days)
I	7
II	9
III	13
IV	21
V	46

As the subscription machinery came into closer contact with the masses of the people, and as the subscription agencies expanded, the periods of subscription had to be gradually lengthened. When subscriptions were opened at such organizations as the small credit institutions, the paymasters' offices (*polevya kaznacheistva*), etc., special subscription periods had to be provided for agencies of this kind (60 days for subscriptions to the fifth loan).

Not only the subscription periods, but also the periods within which the subscribers are required to pay their instalments are of importance in connection with the mobilization of capital and savings. The length of these periods is determined by the development attained by the credit system and by the nature of the resources that it is proposed to attract. If these resources represent the current requirements of the market and are temporarily immobilized in various ways, the periods for the payment of instalments will naturally have to be rather long. On the other hand, if the resources to be utilized for investment in the loans are of the nature of free savings, the payment of instalments may be demanded in a comparatively short period. The issue of the first three war loans was effected chiefly by apportionment among banks as a matter of course; the funds that it was sought to mobilize represented, therefore, primarily the working funds of the money market. In the subsequent loan campaigns the free funds and savings of the general public were mobilized, and the instalment periods were accordingly shorter, as will appear from the following table:

<i>Loans</i>	<i>Instalment Periods</i> (number of days)
I	86
II	61
III	121
IV	62
V	60

In order to facilitate the investment of small savings in war loans, a bond was introduced of the fractional denomination of 50 rubles, which had not been known before the War. It is, however, impossible to ascertain to what extent it was actually sold, as no statistics were kept with regard to the distribution of bonds by denomination.

We may mention also the extensive credit facilities, in the shape of advances on the security of war bonds, that were granted by the State Bank, its branch offices and agencies, the sub-treasuries, the commercial banks, etc. Thus, for instance, when the 5½ per cent war loan of October 1916 was floated, the State Bank and its branch offices and agencies, as well as the sub-treasuries, accepted the loan certificates as collateral for advances made, both at the moment of subscription and subsequently, at a privileged interest rate of 5½ per cent per annum until the 1st January 1918.²² The amount advanced at the moment of subscription was fixed at 88 per cent of the par value of the bond.

We have already mentioned, when discussing the part played by the State Bank in the issue of the war loans, the propaganda, oral and written, that had been organized with a view to rendering the loans popular and making the masses aware of their importance for the attainment of victory and for the future of Russia. Extensive use was made of the press; millions of copies of popular pamphlets, colored posters, illustrated postal cards were distributed; lectures were arranged; civic educational committees were established, etc. This propaganda became particularly active at the time when the Liberty Loan of 1917 was offered for subscription. The Minister of Finance entered into an arrangement with other ministries, departments, and public bodies to enlist the coöperation of government employees, members of the clergy, municipalities and zemstvos, and various civic and industrial organizations, in the educational campaign designed to promote the success of the loan. Special provincial committees were set up, which took charge of the campaign in the several localities. In order to familiarize the urban population with the loan, conferences were arranged, in which the representatives of banks, trade and industry, the press, and other influential bodies took part.²³ The periodical press gave active support to the popularization of the loan.

²² See p. 252, n. 9.

²³ *Vestnik Finansov*, 1917, No. 13.

The Part Played by Current Expenditure Funds.

A government's policy when borrowing for war purposes should have for its object to attract not only the funds at call in current accounts at the banks but also the savings accounts forming semi-permanent deposits in banks and savings banks or kept in private hoards. An endeavor may and should also be made to divert to the loans some of the money which the people keep in their pockets, that is, a portion of the funds that would normally be spent. The objects of the loan policy coincide in this respect with those of the food supply policy, which is designed to curtail consumption, and thus gives rise to savings that may subsequently, by a rational policy of loan issues, be utilized for investment in war loans. A discussion of this aspect of the food supply policy is beyond the scope of the present work. While we do not deny the effects that that policy may have upon the success of the loan issues, we do not share the view expressed by A. Guriev in a series of articles which he devoted to this problem,²⁴ that it is of decisive importance.

According to Guriev, "the main object of the consolidation operations and the fundamental condition of their success is that they should serve to curtail the demand for goods on the part of the masses of the people. Both our western allies and our enemies have fully realized that the point of prime importance is not that savings already constituted shall be placed at the service of the Government, but that the very process of saving be furthered. They have, therefore, endeavored to impress upon the people at large that it is their duty to economize, to curtail consumption, and to place at the disposal of the Government the money that they save for this purpose by refraining from purchases in the market. A patriotic propaganda to this effect has been carried on on the most extensive scale, and various technical methods have been devised, in accordance with the variety of local conditions, to promote the success of the war issues, such as collective subscriptions, resolutions of professional and trade organizations providing for regular deductions from salaries and wages for the purchase of war bonds, compulsory deductions from the wages of minors, propaganda among the women, who usually have charge of the family budget, and so on. . . . In Russia, on the contrary, the funds absorbed by the war loans have not come from

²⁴ A. Guriev, in *Vestnik Finansov*, 1917, Nos. 39, 40, and 41.

savings effected by refraining from purchases, but from such moneys as had been found to be in excess of requirements and had therefore been put aside as deposits in banks and savings institutions, or hidden in safes and chests. Our consolidation operations have not touched at all the moneys which form the current expenditure funds of the people."

While it is true that the investment in the war loans of funds usually devoted to current expenditure may be stimulated by the combined action of provisions relating to food supply and to credit, such as have just been described, it is not entirely dependent upon such provisions.

Influence of the General Political and Economic Situation.

The investment of current expenditure funds in the war loans by the masses of the people depends upon political, social, and economic factors connected with the situation as a whole at a given moment. An excessive advance in prices, a steady depreciation of the currency, excessive liberality in the distribution of public moneys in the shape of various war allowances, a rise of the level of wages,—all of them developments determined by the general social, political, and economic situation,—are bound to lead to an inflation of the volume of business and thus to interfere with the transformation of current expenditure funds into savings and into investments in war loans.

The Liberty Loan.

The effect of these factors was distinctly felt in the subscriptions to Russian war loans. The amount yielded by those loans was very large, both absolutely, and especially when compared with the scale on which loans had been issued before the War. It bore, however, an insufficient proportion to the total war requirements. It should also be taken into consideration that already before the issue of the Liberty Loan the floating of loans was affected by the general economic conditions stated above: when the second issue of 1916 was floated, for a nominal amount of 3,000 million rubles, the State Bank and the underwriting syndicate of private banks had already encountered difficulties arising out of the general political and economic situation.

The effect of the same factors was much more pronounced upon the subscriptions to the Liberty Loan. This loan, as already stated,

was issued on the 27th March 1917 for an unlimited amount. In the first months, the general enthusiasm that followed the "bloodless revolution" contributed to its success. Later on, however, political events and the economic situation caused a rapid decline in subscriptions. The political factors responsible for this were the military failures, the breakdown at the front and in the rear of the army, and Bolshevik propaganda, which interfered with investments in the loan among the poorer classes. As early as in July the organ of the Ministry of Finance stated, in a survey of the progress of the subscription, that while the bourgeois classes were unanimous in their response to the loan, the attitude of the workers and of the peasants was one of aloofness, which was explained chiefly by the propaganda of the *Lenintsi* (Leninites).²⁵ The same journal wrote in this connection as follows:²⁶

"In Petrograd about two per cent of the population have subscribed to the loan, and in Moscow, about four per cent. It must be admitted that a larger participation might have been expected, especially in view of the appeal issued by the central bodies of the democratic organizations to the working population of the two capitals, urging them to subscribe to the loan. The figures we have given support the statement made by A. I. Shingarev to the effect that the bourgeois classes have taken a more active part in the subscription than the masses."

Bolshevik propaganda consisted, among other things, in the dissemination of false rumors with regard to the economic situation of the country and the condition of government finances, rumors designed to create a panic and to interfere with the financing of military operations. At one of the last meetings of the All-Russian Committee for Civic Aid to the War Loans, M. Skvortzov, Director of the Office of the Minister of Finance, reported that subscriptions to the Liberty Loan had been coming in at a steadily decreasing rate; and Professor P. P. Migulin, a member of the Committee, pointed out that this was due primarily to the circulation of alarming rumors with regard to the state of Russian finances and the depreciation of the ruble, which undermined the confidence of the people in the financial strength of the country.

²⁵ *Torgovo-Promishlennaya Gazeta*, 1917, No. 172.

²⁶ *Ibid.*, 1917, No. 159.

The leaders of the parties of the Left endeavored to counteract the Bolshevik propaganda and to bring about a more favorable attitude on the part of the workers and peasants towards the Liberty Loan. Thus, on the 21st June, the All-Russian Soviet of Workers' and Soldiers' Delegates adopted the following resolution:²⁷

"The Convention, taking into consideration the urgent necessity of an uninterrupted flow of funds into the State Treasury, approves the resolution adopted by the Petrograd Soviet of Workmen's and Soldiers' Delegates with reference to the Liberty Loan, and expresses its belief that the support of the Liberty Loan is at this moment an immediate duty of all Soviets of Workmen's and Soldiers' Delegates, as well as of all Soviets of Peasants' Delegates. The time has arrived when compulsory methods of a decisive nature must be resorted to in order that the voluntary loan shall be taken up.

"At the same time, the Convention deems it necessary to declare that in the event of its appearing very soon that subscriptions to the Liberty Loan have proved insufficient, the Provisional Government should resort to a forced loan."

In the middle of August 1917, at the Moscow State Conference (*Gosudarstvennoe Soveshchanie*), Chkheidze stated that "the united democracy regards it as its duty to make every effort to support the financial measures undertaken by the Government with a view to an effective collection of taxes and to the success of the Liberty Loan."

Subscriptions to the Liberty Loan proceeded at a steadily decreasing rate from the end of the month of July onwards. The average total of daily subscriptions was 33 million rubles at the beginning of April; 16 million rubles at the beginning of May; 27,500,000 rubles at the beginning of June; 20 million rubles at the beginning of July; 8,400,000 rubles at the beginning of August; 5 million rubles at the beginning of September; and 2,900,000 rubles at the beginning of October. The total subscribed to the end of July had been 2,626 million rubles, while the total from the 1st August to the end of October was but slightly over 700 million rubles, excluding the bonds allotted to the investment fund of the savings banks.²⁸ The appeals of the leaders of the parties and or-

²⁷ *Torgovo-Promishlennaya Gazeta*, 1917, No. 131.

²⁸ The figures on the progress of the subscription have been kindly communicated by Professor M. V. Bernatzky.

ganizations of the Left had thus been unheeded by those classes of the population to which they were addressed.

As we said above, political factors had not been alone in creating insurmountable obstacles to the success of the Liberty Loan. Just as important, if not more so, was the general economic situation. The effects of the depreciation of the ruble and of the advance of prices, which undermined the foundations of the economic system, were aggravated by the mad upward rush of wages, and by the uninterrupted growth of the government expenditure on increased pay of soldiers and sailors, wages of railway employees, salaries of postal clerks, allowances to soldiers' families, etc.

The successful floating of war loans was impeded by the excessive demands made by the proletariat upon the Government; these demands, on the one hand, led to further inflation, while on the other they drained the volume of currency in circulation by increasing taxation, raising the cost of production, etc. The situation in this respect is described as follows in M. Dementiev's analysis of government revenue and expenditure during the War, from which we have already repeatedly quoted:

"From time to time, economic demands have been put forward by citizens of various trades or professions who were so strongly organized as to be in a position to support those demands by the threat of some definite action that would inflict suffering on the country and on its people as a whole, such as stopping all railway traffic, discontinuing the postal and telegraph services, cutting off the fuel supply, and the like. The fact that the country has been living through the calamity of a war does not cause them to abate their demands. Just now the country has been faced with the threat of a strike of railway men, who demanded an increase in pay that would mean a new burden of 4,000 million rubles a year for the Treasury. The threat had actually begun to be carried into effect, but the Treasury succeeded, after hard bargaining, in averting it at the cost of an increase in wages amounting to a total of 700 million rubles; and that, after the railway employees had already been granted in 1917 alone more than 500 million rubles for the improvement of their condition, as a high-cost-of-living bonus."

The post office and telegraph employees had in 1916 been granted an allowance of 20 million rubles, in addition to their salaries, and

in 1917 they obtained, by the threat of a strike, an additional annual increase of 140 million rubles, which was to be raised to over 180 million rubles in 1918.

The pay of soldiers and sailors had been raised in 1917 by an amount that, according to the estimates of M. Dementiev, writing in October, would have required about 500 million rubles from that date to the end of the year.

Of all the demands made at that time, those for increased allowances for dependents of soldiers involved the largest amounts. The original object of these allowances, which was to provide for the minimum requirements of the dependents, was discarded by the authors of the various plans for their increase, in favor of the principle of the complete maintenance of the soldiers' families and relatives at the expense of the Treasury. One of the later projects went so far as to provide for the free housing, with heat and light, of such dependents of soldiers as had no dwelling of their own and no free accommodation. But even if this scheme is excluded, the concession of all the demands for increased allowances would have meant an almost fourfold increase of government expenditure under this head, for it would have risen from 3,000 million rubles to 11,000 million. The question of these demands was referred to a special commission at the Ministry of the Interior, composed of delegates of the soldiers' wives, as well as of the Soviets of Workmen's and Soldiers' Delegates and of soldiers' organizations at the front. Owing to the exorbitant character of the demands, the discussion became protracted, and the problem had not been solved when the October Revolution broke out.

It is thus seen that the failure of the internal loan operations of the Treasury to solve the problem of government finance was due not only to the political factors that were at work after the Revolution, but also to the general economic and social situation then prevailing.

At the same time, the expenditure entailed by the War was rapidly growing. According to estimates made by M. Dementiev in September 1917, the amount that would have been required to cover the expenditure of the last four months of that year was 13,000 million rubles.

Projected Lottery Loans and Forced Loan.

These conditions gave birth to various projects designed to secure subscriptions to war loans either by offering special inducements to subscribers or by making subscription compulsory.

The project of a lottery loan was embodied in a bill of the Provisional Government, and bonds of that loan were actually printed. The plan of a forced loan did not go beyond the stage of discussion.

The main features of the lottery loan as proposed in the government bill were as follows. The loan was to be issued in the form of 4 per cent notes, of a nominal amount of 100 rubles each. It was to be entered in the Public Debt Book as "The Government 4 per cent Savings Loan of 1917 with Lottery Drawings." The issue was to consist of several series, each of 500 million rubles, running for twenty-five years, with lottery and redemption drawings once a year for each series. The winning numbers were to receive an aggregate sum of 6,200,000 rubles annually. There were provided in all 1,854 such prizes, including one of 400,000 rubles, and three of 200,000 rubles each.

Besides this bill, a number of projects by private persons were published, of which we shall mention only Professor Hensel's detailed plans of a lottery loan and of a forced loan. The lottery loan proposed by him was on the following lines.

The loan was to be issued for an amount of 1,000 million rubles, to be offered at par, and to bear interest at $5\frac{1}{2}$ per cent. It was not to be subject to amortization, redemption, or conversion, during the first ten years. On the other hand, it was during those ten years, and only then, that the loan was to have the character of a lottery loan. Three thousand bonds were to be drawn annually to receive an aggregate amount of 6 million rubles, including ten prizes of 200,000 rubles each. The total amount of the annual drawing was thus equal to 0.6 per cent of the principal of the loan. All bonds were to be of the same type and of denominations of 100 rubles. The loan was designed to be widely distributed among the masses of the people. At the end of the initial ten-year period the lottery drawings were to be discontinued, and the issue was to become an ordinary redeemable loan, with the right of conversion reserved by the Government.

The principal provisions of Professor Hensel's project of a forced loan were as follows.²⁹

The loan was to be issued at par, to bear interest at a rate of $5\frac{1}{2}$ per cent, to run for twenty years, and to be designated "The Russian Government $5\frac{1}{2}$ per cent Liquidation Loan of 1917." Its amount was not to exceed 10,000 million rubles.

Three possible variants were suggested, namely: (1) a provision for non-redemption of the loan before the 1st December 1927; (2) conversion to a 5 per cent rate after the 1st December 1927; (3) non-convertibility of the loan.

The loan was to be offered for voluntary subscription, but there were special provisions prescribing the minimum subscription required of certain specified classes of individuals and organizations. Under these provisions, all such income tax payers as were assessed in 1917 for incomes in excess of 2,000 rubles were grouped in six classes according to the amount of their incomes and required to subscribe for amounts running from 10 per cent of their income, for incomes of less than 10,000 rubles, to 60 per cent, for incomes of more than 200,000 rubles. A rebate of 50 per cent was allowed to the three lower classes of tax payers, and one of 10 per cent, to the three higher classes, in respect of incomes earned by personal labor or by trade or industry. Persons assessed to the national land tax, the tax on real estate in cities, the national tax on dwellings, the national business tax, the war profits tax, and the tax on incomes from interest-bearing securities or funds, were required to bring their subscriptions up to certain minimum amounts specified for each class, as, for instance, an amount equal to ten times the tax assessed on city real estate, an amount equal to that of the profits tax, etc.

Special provisions were made with regard to the subscriptions of banks, insurance companies, etc., which were fixed with reference to capital and bonded indebtedness, to the amount of deposits, to that of premium payments, and so on.

The holders of bonds of previous issues were to be exempted from compulsory subscription to the liquidation loan to the extent of 50 per cent of the nominal amount of those holdings; thus, for instance, a person holding bonds of previous issues to an amount of 100,000

²⁹ *Vestnik Finansov*, 1917, No. 24.

rubles, would have been exempted from compulsory subscription to the extent of 50,000 rubles.

2. THE DOMESTIC SHORT-TERM DEBT.

Purposes of the Short-Term Issues.

The short-term debt contracted by Russia for war requirements was in the form of 5 per cent Treasury bills.

The greater part of this debt consisted of such 5 per cent bills discounted by the State Bank, on which bank notes were accordingly advanced by the Bank. As stated above, the charges on these bills were defrayed out of the War Fund, while the revenue derived from discounting them was entered among the receipts of the State Bank. These Treasury bills were also taken up by private organizations and individuals.

In determining the proportion of the war expenditure that was financed by loans as compared with that covered by note issues, only that portion of the short-term war debt which was taken up by private persons or firms has to be taken into consideration. Otherwise, if the short-term bills discounted at the State Bank were included in the computation, these would figure twice over, and the total of war disbursements would be correspondingly inflated.

Originally the Treasury bills were issued exclusively for discount at the State Bank. Immediately upon the declaration of war the Minister of Finance presented a report to the Finance Committee requesting that the State Bank be empowered to discount such bills. The report was approved by the Finance Committee and the Council of Ministers, and received the sanction of the Emperor on the 23rd July 1914.

On the same date was published a resolution of the Council of Ministers, sanctioned by the Emperor, which enacted a number of extraordinary financial measures rendered necessary by war conditions. These were: the suspension of specie payments; the extension of the note-issuing power of the State Bank; and the provision of extraordinary sources of revenue for the Treasury, to enable it to meet the war expenditure. The regulations in force were amended and supplemented by temporary enactments, which empowered the State Bank, for the period of war emergency, to discount Treasury

bills to such amount as might be required by circumstances. The first issue of bills was authorized for an amount of 400 million rubles.³⁰

Short-term Treasury bills had been known in Russian credit practice since long before the War, and the Statutory Credit Law (*Svod Zakonov*, vol. XI, part II, division II, articles 169-178) contained provisions relating to them. In ordinary times the object of Treasury bills is to place at the disposal of the Government such funds as may be needed to meet temporary financial requirements; in particular, a deficit on the ordinary budget. In the last two decades that preceded the War, however, the budget estimates of government revenue had been drafted with extreme caution. It was even alleged that certain revenues had been intentionally underestimated. As a result, not only did the budgets leave no deficit, but they showed, on the contrary, a considerable excess of revenue over expenditure and permitted the accumulation of a free surplus. No Treasury bills had, therefore, been required. That form of financing had been resorted to for the last time in 1905, when 400 million rubles of bills were issued, which were fully redeemed in 1907.

The first war-time issue of Treasury bills was authorized, as we have seen, by a decree of the 23rd July 1914, for an amount of 400 million rubles. By the 26th August 1915, the issues authorized had reached 2,900 million rubles. A ukase issued on that date authorized a new issue, with the provision, however, that the total of outstanding bills should not exceed 4,000 million rubles. Subsequent decrees did not change the type of Treasury bills, which remained that of 5 per cent bills running for not more than twelve months, and they increased the amount of bills authorized as follows:

	<i>Rubles</i>
26th August 1915	4,000,000,000
30th December 1915	6,000,000,000
1st June 1916	9,000,000,000
10th October 1916	12,000,000,000
26th February 1917	15,000,000,000
26th May 1917	18,000,000,000
1st August 1917	21,000,000,000
1st October 1917	25,000,000,000

³⁰ *Vestnik Finansov*, 1914, No. 41. The data quoted in what follows have been taken chiefly from the articles published by V. Mukoseev in *Vestnik Finansov* in 1917: *Reforma emissii 5% kratkosrochnikh obyazatelstv gosudarstvennago Kaznocheistva* (*The Reform of the Issue of 5 per cent Short-Term Treasury Bills*).

The amounts of bills actually outstanding never reached the maximum limits authorized. The growth of the internal floating debt as represented by the short-term Treasury bills, is shown by the following figures:

	<i>Rubles</i>
1st January 1915	800,000,000 ³¹
1st January 1916	4,000,000,000
1st January 1917	9,775,000,000
1st March 1917	11,775,000,000
1st July 1917	14,450,000,000
1st August 1917	15,950,000,000
1st September 1917	16,750,000,000
18th September 1917 (last figure known)	17,600,000,000
23rd October 1917 (estimates ³²)	18,747,000,000

Measures to Secure Wider Distribution of Short-Term Issues.

In accordance with their original object, the bulk of the Treasury bills were held for a long time exclusively by the State Bank and accumulated there, while only a small portion came on the general market, finding their way chiefly to joint-stock banks, owing to the shortage of other paper suitable for discount. On the 13th October 1916, the State Bank published a notice inviting private capital to invest in Treasury bills. It was only then, in the autumn of 1916, when the Treasury bills held by the State Bank exceeded 2,000 million rubles, that the Ministry of Finance began to take steps to distribute these securities more widely and to render them more popular.

The measures for this purpose related in the first place to the denominations of the bills. The first issue, that effected under the decree of the 23rd July 1914, had been in denominations of 1,000,000 rubles, 500,000 rubles, and 100,000 rubles. Later on, denominations of 50,000 rubles, 25,000 rubles, 10,000 rubles, and 5,000 rubles were added. The issue of December 1916 included for the first time bills of a denomination of 1,000 rubles.

In addition, the number of places where Treasury bills were placed on sale was increased. In September 1915 the sale was extended to all branch offices and agencies of the State Bank in the provinces, and at the end of 1916, to all sub-treasuries.

³¹ See p. 252, n. 9.

³² Calculated at 31 million rubles a day from the 18th September.

Registered Treasury bills were introduced in addition to the original type of bills to bearer. The form of a negotiable note payable to order was substituted for that of a bond redeemable at maturity. Advances on bills as collateral were authorized to the extent of 95 per cent of their par value, at $5\frac{1}{2}$ per cent interest, and the rediscount rate was reduced from $5\frac{1}{4}$ per cent to $5\frac{1}{8}$ per cent. The acceptance of Treasury bills up to a certain proportion of payments on account, or in settlement, of contracts and deliveries was made obligatory on creditors of the Government. The proportion of Government payments that might thus be effected was raised in April 1917, under the Provisional Government, to 30 per cent for contracts and deliveries of a value of 50,000 to 100,000 rubles, 40 per cent for payments of 100,000 to 200,000 rubles, and 50 per cent for those in excess of 200,000 rubles. When instalments were paid by the Government, the acceptance of 50 per cent in bills was made obligatory for payments of 50,000 to 300,000 rubles, and of 75 per cent, for those exceeding 300,000 rubles. It should, however, be observed in this connection that the ease with which advances were granted by the State Bank on the security of the Treasury bills defeated to a large extent the purpose for which their acceptance by contractors and purveyors had been made obligatory. The organ of the Finance Department wrote as follows on this problem:³³ "The question of Treasury bills has come up for discussion at the Financial Advisory Board of the Ministry of Finance, and it has been decided that the methods of issuing them shall be improved and that a number of measures shall be enacted to put an end to the ease with which these obligations flow back into the vaults of the State Bank. Under present conditions, the obligatory nature of Treasury payments in short-term bills has almost disappeared, owing to the great facility with which these bills can be discounted at the State Bank at a very favorable rate. The bills now return to the Treasury too rapidly, and this makes the entire operation to a great extent ineffective."

However, no further radical changes were introduced in the short-term issues during the War.

³³ *Vestnik Finansov*, 1917, No. 40.

Yield to the Investor and Relation to Long-Term Issues.

The short-term issues remained of the same type throughout the War, as regards both their maturities, which did not exceed twelve months, and the rate of interest, which was maintained at 5 per cent. The 5 per cent rate had been imposed by circumstances. According to a happy definition given by M. Mukoseev in the articles already referred to, its origin lay in money market conditions rather than in the state of government credit. Under the Statutory Credit Law, the Minister of Finance was empowered to fix the rate of interest on Treasury bills. The first government loan issued in Russia during the War was in the form of such bills, and the 5 per cent rate was then dictated by the high discount rate of the State Bank on the eve of the War and by the confusion in the discount market immediately after its outbreak. So high a rate, however, proved to be out of all proportion to those which were fixed later on for long-term war loans. The 5 per cent war loans of 1914 and 1915 actually yielded 5.318 per cent. Allowing for the advance payment of the discount on the Treasury bills, the difference in the yield is only 0.045 per cent in favor of the long-term issues. It was only later, when the ten-year 5½ per cent loans and the 5 per cent Liberty Loan at 85 were issued, that the ratio between the yield of long-term bonds and that of the Treasury bills became more normal.

In a more general way too, the relation between the short-term issues and the long-term consolidated loans and those of intermediate maturities remained loose all through the War. While the banks had resorted to conversion of short-term issues to long-term loans since 1915, other classes of private holders were enabled to do so for the first time when the sixth 5½ per cent war loan was issued at the end of 1916, on which occasion short-term bills were made acceptable in lieu of cash in payment for subscriptions, at a discount of 5 per cent. The same facilities of conversion were granted when the Liberty Loan was floated. If the banks are left out of account, the results of such conversions were altogether negligible. Thus, for instance, during the subscription to the Liberty Loan, banks converted 575 million rubles of Treasury bills, and other private holders, 15 million rubles, according to the figures as of the 1st September. The sums invested in Treasury bills were evidently in the nature of working

capital and had to be kept liquid, so that conversion was not sufficiently advantageous to attract them.

On the whole, the measures adopted to encourage the investment of private capital in Treasury bills met with undeniable, though insufficient, success, and they resulted in increasing the number of private holders of these securities.

*Amount of Treasury Bills Taken up by the State Bank,
Savings Banks and Private Firms.*

The following table shows the amounts of short-term Treasury bills taken up by the State Bank, the State savings banks, and in the open market, respectively:

Distribution of Short-term Treasury Bills.³⁴

	<i>To Official Institutions</i>		<i>In the Open Market</i>		<i>Total</i>
	<i>State</i>	<i>State</i>	<i>Private</i>		
	<i>Bank</i>	<i>Savings Banks</i>	<i>Banks in Petrograd</i>	<i>Others</i>	
	(millions of rubles)				
16th August 1914	25.0	....	....	....	25.0
1st December 1914	471.9	....	102.1	1.0	575.0
1st January 1915	653.2	....	137.5	9.3	800.0
1st July 1915	1,586.5	....	282.0	31.5	1,900.0
1st December 1915	3,326.0	....	426.3	247.7	4,000.0
1st January 1916	3,295.0	....	416.9	288.1	4,000.0
1st June 1916	3,823.7	175.0	775.1	1,076.2	5,850.0
1st December 1916	6,214.4	423.0	1,140.6	1,345.0	9,123.0
1st January 1917	6,861.5	300.0	1,228.6	1,384.9	9,775.0
1st March 1917	7,870.8	750.0	1,472.7	1,681.5	11,775.0
1st July 1917	10,342.4	785.0	1,052.5	2,270.0	14,449.9
1st August 1917	11,317.5	860.0	972.2	2,300.3	15,450.0
1st September 1917	12,345.0	935.0	981.6	2,480.0	16,741.6

As has been stated above, the total amount of bills issued to the 25th October 1917, may be estimated at 18,747 million rubles. Assuming that the State Bank held the same proportion of that total as it held in the bills outstanding on the 1st September, we shall find that out of the total of 18,747 million rubles, the amount which had passed into general circulation or had been allotted to the investment fund of the savings institutions was 4,930 million rubles,

³⁴ See p. 252, n. 9.

whereas 13,817 million rubles had been discounted at the State Bank.

Thus by far the greater part of these issues had been taken up by the State Bank, while the proportion of bills acquired elsewhere had not shown any tendency to increase since the middle of 1916, it had, on the contrary, somewhat diminished, as will be seen from the following table:

Proportional Distribution of Treasury Bills between the State Bank and Other Holders.

	<i>State Bank</i>	<i>Other Holders</i>
	(in percentages)	
1st January 1915	81.7	18.3
1st July 1915	82.4	17.6
1st January 1916	82.3	17.7
1st June 1916	65.3	34.7
1st January 1917	70.2	29.8
1st June 1917	71.6	28.4
1st September 1917	73.7	26.3
25th October 1917 (approximate figures)	73.7	26.3

Not only was an insufficient proportion of the bills issued outside the State Bank, but the bills so issued were also running for shorter terms than those held by the State Bank. Of the total amount issued to the 1st September 1917 (including a certain number of bills that had been sent to the branch offices and agencies of the State Bank and to the sub-Treasuries, some of which may not have been sold by the 1st September), bills running for more than 90 days formed 78.8 per cent, and those maturing within 90 days, only 21.2 per cent. On the other hand, of the bills held by private banks and individuals, 13.4 per cent and 24.5 per cent, respectively, ran for more than 90 days, and 86.6 per cent and 75.5 per cent, respectively, were of shorter maturities.

Treasury bills were thus neither widely distributed among the general public, nor used for investments of any considerable duration.

Plans were drawn up in 1917 with a view to remedying these defects in the short-term issues. According to these proposals, "the single type of short-term issue would be replaced by a number of subsidiary types, offering a variety of maturities and rates of in-

terest, with a view to extending the maturities of the bulk of the floating debt over periods of five, three, and two years, and thus changing at least a certain portion of that debt into one of intermediate maturity. It was proposed, in addition, to connect the issues of short maturities with those of long-term loans so as to make conversion practicable and advantageous." The object of the reform was to place the war debt on a more stable basis by reducing its floating portion, and to bring about the investment of additional funds in government loans.

CHAPTER III

FOREIGN CREDITS OPENED TO RUSSIA DURING THE WAR¹

1. INTRODUCTORY.

THE political agreements that Russia had concluded before the War included no financial conventions, and no financial arrangements had been made between Russia and France and England before the early part of 1915.

One of the first effects of the War, so far as Russia's balance of international payments was concerned, was the almost complete suspension of her trade with other countries, which had been the principal source of her foreign credits. Not only were the usual trade routes closed, but the railways were overtaxed by military transport; and the embargo on the export of a large number of commodities, which was dictated by war conditions, contributed to this breakdown.

While Russia's foreign trade had shown a considerable excess of exports over imports prior to the War, the year 1914 closed with an unfavorable balance of 92 million rubles, increased in 1915 to 476 million rubles, in 1916 to 1,359 million rubles, and from the 1st January to the 15th October 1917, to 1,795 million rubles.

This violent change in the balance of trade and the increasingly adverse situation in this respect were the main causes of the disturbance of the exchange and of the difficulty in securing foreign bills.

As regards Russia's cash balances abroad, they amounted, when war broke out, to 500 million rubles, and were held almost entirely in France and, to a small extent, in England. The organ of the Finance Department, in an article published in the early days of the War, described the situation as follows: "As regards our balances abroad, they include at the present time an amount of 100 million rubles belonging to the State Bank, and one of 400 million rubles belonging to the State Treasury. These funds are

¹ In addition to the authorities referred to below, information regarding Russian indebtedness to foreign countries has been obtained from the archives of the Agency of the Russian Finance Ministry in France.

now held in friendly countries exclusively, as the Ministry of Finance proceeded with the utmost energy, as soon as international complications arose, to withdraw all such balances as we had in Germany and in Austria, so that we now have no funds at all in those countries.”²

Russian Government Funds Abroad.

Free disposal of the funds held abroad was greatly hampered by the moratorium on the payment of deposits which was decreed in France on 1st August 1914. Of the correspondents of the Treasury, with whom Russian funds were placed on current account, Rothschild Brothers, the *Crédit Lyonnais*, and the *Comptoir National d'Escompte*, did not avail themselves of the moratorium. The other correspondents, however, were compelled by the condition of the Paris market to suspend payment on the Russian accounts.

These funds were only gradually released, after prolonged negotiations conducted, first in Paris, and then in Bordeaux, between the Paris Agency of the Russian Ministry of Finance and the French Finance Department and the French banks. The sums released served chiefly for the payment of interest upon the Russian pre-war debt. Certain formalities were required to prove that the coupons presented for payment belonged to Frenchmen, or to subjects of allied or neutral countries, and that they had been held in France before the declaration of war. Such bondholders received payment in the same manner as before the War. The same funds also served to pay for the first orders placed by the Russian Government in foreign countries, and by the beginning of 1915 the Government's foreign balances were partly exhausted and partly still tied up in the banks.

It was at the beginning of 1915 that Russia, for the first time in the War, undertook credit operations abroad.³

² *Vestnik Finansov*, 27th July 1914. A. G. Rafalovitch, Agent of the Russian Ministry of Finance in Paris, quotes figures which are at variance with those given in the text (*La dette publique de la Russie, Paris, 1922*, p. 39). However, we accept the figures of *Vestnik Finansov* as correct, for the Agency of the Ministry of Finance in Paris had no official and exact data with regard to the situation and the movement of the funds held by the Treasury and by the State Bank in foreign countries.

³ Not counting the advance of £12,000,000 obtained in England in 1914, which, as we shall see below, represented to the extent of two-thirds the proceeds of a sale of gold.

General Character of Foreign Credit Operations.

We may note, in the first place, the following principal characteristics of these operations.

By far the greater part of these foreign credits were designed to defray government expenditure caused by the War, and to pay the interest on the pre-war loans. It was only to a limited extent that the Allied Governments met the Russian commercial demand for foreign bills and for the support of the ruble. The great majority of the loans contracted by Russia abroad during the War consisted of credits opened to her in France and in England. These credits were granted almost exclusively in the shape of advances by the Allied Governments.

Proposals for Issues on French and English Markets.

While Russia did not issue or offer any loans in the open markets either in France or in England,⁴ proposals for such issues came repeatedly under consideration. These plans, however, never materialized, owing to the disagreement between the Russian Finance Ministry, on the one hand, and the French and British Finance Departments, on the other, with reference to the security for such loans and to the distribution of their proceeds. It was decided in principle that the floating of a Russian loan in the French and British markets would be resorted to after the War, to provide for the consolidation of advances made during the War and for various post-war requirements.

At the first conference of the Allied Finance Ministers, held in Paris at the beginning of October 1915, Mr. Lloyd George, then Chancellor of the Exchequer, submitted a plan for the financing of Russia's foreign expenditure by the floating of a Russian loan of £100,000,000 on the British and French markets. The proceeds of the loan were to serve, in the first place, to pay off Russian Treasury bills, which had been discounted in England in January 1915 to an amount of £20,000,000. Another portion of the loan, not to exceed £12,000,000, was to be used to repay debts incurred in England by Russian banks and trade and industrial concerns, who would be required to transfer the equivalent in rubles to the Russian State

⁴ With the exception of £10,000,000 of short-term bills placed in the British market in 1915, a matter which will be discussed below.

Bank. It was provided that the operation might be carried out through the agency of the Bank of England, without, however, this implying any guarantee on the part of the British Government or any participation of the British Treasury in the subscription to the loan.

The project was rejected by the conference, as was also one providing for the issue of a loan with the joint guarantee and over the signature of the three Allied Powers. Mr. Lloyd George categorically opposed such a loan. He pointed out that a jointly guaranteed loan, over the signatures of Russia, England, and France, would have to be issued at a price and rate of interest which would of necessity be determined by Great Britain's credit. Under such conditions, the British investor would prefer the British issues to one guaranteed by the three Powers. On the other hand, if the jointly guaranteed loan was issued on more advantageous terms, such as might interest British investors, this might result in a decline in the quotation of the British $3\frac{1}{2}$ per cent loan which had been issued in November 1914.

That, however, did not definitely dispose of the question of a Russian loan issue on the Allied markets. The question was brought up again in the course of the third conference between the Russian and the French Finance Ministers, held in July 1916.

As a consequence of a report by the Paris Agent of the Russian Ministry of Finance that the French Finance Minister regarded the moment as favorable for the floating of a Russian loan on the French market, the Russian Minister of Finance, M. Bark, drafted a rough outline of a project for such a loan.

He pointed out that in view of the successful operations on the Russian front (Brussilov's advance) and of the abundance of free funds on the French market, it might be of advantage to issue a loan in France, which would permit of the consolidation of the advances made to Russia by the French Government, and would at the same time place at Russia's disposal on the French market such funds as she might require. Under M. Bark's proposal, the loan was to be issued for an amount of from 1,500 million to 2,000 million francs, in the shape of five-year Treasury bonds. Of the first 1,000 million francs obtained through the loan, 25 per cent was to be applied to the amortization of Russia's debt to the French Gov-

ernment, 50 per cent was to be placed at the disposal of the Russian Government, and the remaining 25 per cent was again to serve for the redemption of the debt to France. The second 1,000 million francs, or whatever balance might be left after the distribution of the first 1,000 million, was to be assigned to these two objects in equal proportion. The loan would thus provide some of the funds required for amortization of the debt to the French Treasury, and also for the payment of the debts of Russian banking and commercial concerns that were still outstanding in the middle of 1916 on the French market.

This plan, like its predecessor, was not realized. The French Finance Minister objected to it on the ground, among others, that it was inadmissible, in his opinion, that the common fund of the Allies should be used to any extent for such requirements as were not directly related to the conduct of the War, no matter how important those requirements might otherwise be.

While the proposals for the issue of a Russian loan on the Allied markets during the War had to be abandoned, it was understood that such a loan would be floated one year after the end of hostilities to provide for the liquidation of the debt on account of advances made by France to the Russian Treasury during the War. Among the decisions adopted as a result of the conference between M. Bark and M. Ribot was the following:

“Payment of the balance due on account of the advances will be effected by a loan issued in France by the Russian Government under the auspices of the French Government within one year after the end of the hostilities, as soon as circumstances permit. The amount of the issue will be fixed by agreement between the two Governments.”

It was proposed to effect a similar operation in England.

2. CREDIT OPERATIONS IN FRANCE.

Conference of February 1915.

We shall begin our discussion of Russian foreign credit operations during the War with the advances obtained by the Russian Government in France.

At the end of January 1915, M. Bark, the Russian Minister of Finance, landed at Toulon from the cruiser *Askold*, and on the 3rd February of that year the first conference of the Finance Ministers

of the Allied Powers, France, England, and Russia, took place in Paris.

France was represented by MM. Ribot, Viviani, Lemm, Sergent, Homberg; England, by Messrs. Lloyd George, Montagu, and Cunliffe; Russia, by MM. Bark, Fedosiev, Chatelain, and Rafalovitch. The results of the conference were embodied, on the one hand, in certain declarations of principle, and, on the other, in certain practical measures adopted in application of those principles.

Upon Mr. Lloyd George's initiative, the conference proclaimed the financial and economic solidarity of the Allies and stated that only by pooling their financial as well as their military resources could the Allies utilize them to the best advantage against the common enemy. The practical application of this declaration of principle, so far as Russia was concerned, was as follows.

M. Bark estimated Russia's financial requirements abroad in the year 1915 at 1,000 million rubles, or about £100,000,000, including 300 million rubles for payment of interest and amortization on the pre-war debt, and 700 million rubles to defray the cost of contracts and orders placed in foreign countries. As has already been stated, the two loan proposals that were put forward at that first conference, that of a loan to be floated by Russia on the French and British markets, on her sole guarantee and signature, and that of a loan to be issued on the joint guarantee and signature of England, France, and Russia, were declined by the conference. The resolution adopted was to the effect that "in anticipation of the circumstances that will permit Russia to issue Government loans on the British and French markets, in equal proportions, under the protection of the British and the French Governments," these two Governments will each advance to the Russian Government such sums, up to £25,000,000, as it may require.

The first credit opened to Russia by France in 1915 was thus for a total amount not exceeding 625 million francs. The purposes to which the credit might be applied were strictly limited as follows: payment of interest and amortization in France on the government and guaranteed loans issued before the War; payments on account of war supplies purchased or ordered in France; and payment of minor expenditure for maintenance of Russian government services abroad, such as the diplomatic and consular corps, etc.

The technical method of obtaining the advances was by the discount, at the Bank of France, at 5 per cent, of interest-free three-month bills of the French Treasury, which were placed at the disposal of the Russian Government. The bills were deposited for safe keeping at the Bank of France and were discounted as the Russian Government had occasion for advances. These three-month bills were renewable at maturity upon the demand of the Russian Government.

A further practical result of the conference of February 1915 was the decision in favor of the grant of advances jointly by England, France, and Russia, to Belgium and the Balkan countries. As far as Russia was concerned, her participation was, of course, conditional upon the opening of credits in her favor by the other Allies.

Another practical question that was dealt with by the conference related to support to be given to the gold reserve of the Bank of England. We shall take up this question in greater detail when we discuss Russia's credit operations in England. As a result of the first conference, and to meet the desires of the Bank of England, M. Bark gave his consent, as a matter of principle, to the following arrangement, which M. Ribot, for his part, undertook to support in his negotiations with the Bank of France: "In the event that the gold reserve of the Bank of England, including the special cover for currency notes, should decrease within the next six months by more than £100,000,000, that is, if it should fall below £80,000,000, the Bank of England would be entitled to request that the Bank of France and the Russian State Bank advance to it jointly and in equal proportions an aggregate amount of £12,000,000 in gold. The Bank of England undertakes in such event to reimburse the gold thus loaned within a period of not more than one year." The Bank of France reserved the right to use for the purpose of the advance in question such amounts in dollars as it might hold in the United States.

The question of coördinating and centralizing the war orders of the Allies in the United States was raised for the first time at the conference, although it was only at a later period that action was taken on it.

Finally, the Russian Finance Minister expressed his readiness to encourage in every way the export from Russia of grain and such other products as the Allies might require.

Convention with Bank of France.

As we have seen, the credits opened to Russia under the February agreement were intended for strictly limited purposes. They could not be made use of to provide foreign exchange required for private transactions, nor, in particular, for the payment of debts incurred by Russian firms in the Paris market before the War. This condition hampered relations between the Russian and the French markets; the French market, moreover, was adversely affected by the fact that large sums were thus tied up. In order to remedy the situation, negotiations were begun as early as 1914, first in Paris and later at Bordeaux, with reference to credits to be opened by the Bank of France to the Russian State Bank, under the additional guarantee of the Russian Government, for an amount of several hundred millions of francs. These credits were intended to enable Russian banking and commercial concerns to honor commercial and credit bills drawn before the War. Russia was represented in the negotiations by M. Rafalovitch, Agent of the Ministry of Finance, and by M. Vishnegradsky, who accompanied the Minister of Finance on his visits to France.

Under the terms of a convention signed on the 2nd February 1915, the Bank of France opened to the Russian State Bank, under the guarantee of the Russian Government, a credit for an amount not exceeding 500 million francs. The credit was opened in Paris, and its object was to redeem obligations of Russian banks and other firms, drawn in francs in favor of the French market (promissory notes, acceptances, advances, foreign exchange transactions). The branch offices of Russian banks in France were to be regarded as French institutions (Art. I of the regulations annexed to the convention). As advances were made by the Bank of France, equivalent amounts in gold rubles were to be credited to it by the Russian State Bank, and the Bank of France had the right to demand reimbursement of the advances one year after the end of hostilities. The Russian State Bank reserved the right to redeem the debt thus incurred either in francs or by the shipment of an equivalent amount of gold. The advances were interest free, and the Bank of France undertook not to charge any commission on the operations.

The amounts advanced under this convention from the 18th February to the 20th April 1915, totalled 499,087,368 francs.

When the renewal of the charter of the Bank of France came up for discussion before the French Chamber of Deputies, one of the speakers alleged that the convention of February 1915 had been dictated by the desire to compensate the French banking institutions for the losses they had suffered on financial transactions with Russia. As a matter of fact, however, the advances granted by the Bank of France had been a banking and commercial transaction, which had no other purpose than that stated in the text of the convention. There is no secret whatsoever about either the names of the institutions, seventy-five in number, that availed themselves of the advances, or the amounts that were thus paid in settlement of the Russian commercial and banking debts, or the terms of payment.

Under the convention for the renewal of the charter of the Bank of France, which was signed by the French Government and the Bank on the 26th October 1917, and was subsequently approved by the Parliament, it is provided that such losses as the Bank of France may suffer through the failure of the Russian State Bank and of the Russian Government to reimburse the 500 million francs advance shall be recouped from a special fund constituted by the amounts assessed upon the Bank of France for the extraordinary war profits tax. The actual creditor, therefore, so far as this debt is concerned, is the French Treasury.

Conferences of September 1915 and of July 1916.

The second conference of the Allied Ministers was held in London in September 1915, and it was attended by the Italian Finance Minister in addition to those previously named. Besides the general meetings, Mr. McKenna, the new Chancellor of the Exchequer, held separate conversations with each of the three other delegates.

In the month of October of that year, M. Bark also held a number of conferences in Paris, at which new financial agreements with France were arrived at. Russia's total financial requirements for the period from the 1st October 1915 to the 30th September 1916 were, according to the statement made by M. Bark to M. Ribot, as follows. A credit of 1,500 million francs was required for the needs of the Russian Treasury. These included, in addition to the objects for which the first advance of 625 million francs had been made, some small amounts, totalling 20 million francs a year, for the

payment of interest on municipal loans. These loans had not been issued or guaranteed by the Government, but the foreign exchange required for the payment of interest on them was formerly secured by the several municipal administrations through the medium of the Ministry of Finance. At the same time, the Russian Minister of Finance expressed the wish that the same credit should be made available for payments in Italy on Russian orders placed in that country, a measure that could have no adverse effect upon the quotation of the franc, inasmuch as the condition of the lira exchange was favorable to France. M. Bark suggested that the advances might be made on the same terms as the previous advance of 625 million francs, at the rate of 125 million francs a month.

In the course of these conversations it was M. Bark's endeavor to secure foreign credits not only for military and government requirements, but for the support of Russian trade and industry as well. He accordingly urged the importance of facilitating the commercial intercourse between Russia and France, which was suffering from the disturbance of the exchange and from the difficulty of obtaining means of payment abroad. He suggested that a number of Russian banks, specially designated for this purpose by the State Bank, should be afforded the facility of presenting, through the correspondents of the State Bank, bills drawn upon first-class French firms, and accepted by them, for discount and renewal.

M. Ribot accepted M. Bark's main proposal, that a credit should be opened of the average monthly amount of 125 million francs, which implied the right to utilize each month the unexpended balances of the credits of preceding months. The French Finance Minister did not, however, consider it possible to assume obligations for a long period in advance and for so large a total amount as had been suggested. As a matter of fact, credits to the amount of 125 million francs a month, with the right to draw upon the unexpended balances in any succeeding month, were placed by France at Russia's disposal, as we shall see below, down to the time when Russia withdrew from the War, that is, until November 1917. Russia was also allowed to pay interest on municipal loans out of these advances, as M. Bark had suggested. His two other requests were refused. M. Ribot did not see his way to allow payments to be made out of the credits on account of Russia's contracts and purchases in Italy.

He indicated that although the Italian exchange was favorable to France, there was a danger that Italy might avail herself of the credits thus opened to her in France to acquire American exchange. M. Bark was similarly unsuccessful in asking that the private transactions of Russian banking and trading concerns should be supported through the discount at the Bank of France of drafts accepted by leading French firms.

The arrangements arrived at as a result of the interview between M. Ribot and M. Bark on the 6th October 1915 provided for a mutual exchange of services. France was to open financial credits to Russia, while Russia was to provide, likewise on a credit basis, for the supply of wheat and alcohol to France. At the same time, the Russian Minister of Finance agreed to take steps to meet the wishes of the French Government and of French business groups in such matters as the revision of Russian legislation with reference to the replacement of lost securities, the establishment of Russian custom houses in France, and the admission of French wines into Russia.

In October 1915 the Allied Governments were firmly convinced that the Dardanelles would soon be opened and that imports of goods from Russian ports on the Black Sea and the Sea of Azov into the French Mediterranean ports would thus become possible. It was in view of this that the agreement of 1915 provided for the delivery of wheat and alcohol by Russia. Under the agreement the Russian Government was to acquire the wheat and the alcohol and to pay for it in rubles for the account of France. The expenditure thus incurred was to be credited to Russia in the account in which the advances made to the Russian Treasury were debited. The amounts thus credited were to be reckoned in francs at the rate prevailing on the day of the settlement of the advances account, that is, under the terms of the agreement, one year after the end of hostilities, when the account was to be settled with the aid of a loan issued in France for such amount and on such terms as might be fixed by an understanding between the two Governments.

The Dardanelles were not opened, however, and the projected deliveries of Russian wheat to France through the Mediterranean ports could not therefore be realized. The Russian Government had assembled enormous quantities of wheat at the Black Sea ports for shipment to France, but this operation had to be liquidated, and only

small consignments of wheat were shipped to France through other Russian ports.

The question of revising Russian legislation with regard to the replacement of lost securities had for long been a matter of interest to France. The method of challenging the holder and opposing his claims by public notice was unknown in Russian legislation, and as a result considerable inconvenience was caused to French investors, especially during the War, when French territories were occupied by the enemy, and Russian securities belonging to French residents in those territories were liable to be confiscated. The wish of the French Government was complied with, and a law was enacted containing the necessary provisions. This, however, happened only in 1917, on the eve of the October Revolution, and the law, therefore, never came into force.

The establishment of Russian custom houses in France was desired by French importers in order to relieve trade of the red tape, disputes, and difficulties connected with the inspection of goods. The question had been discussed before the War and presented considerable technical difficulties. It could be solved only after the War.

Finally, the third matter on which the Russian Finance Minister promised to try to secure a favorable solution was that relating to French wines and liqueurs, the trade in which had been handicapped by the measures enacted in Russia prohibiting the sale of intoxicating liquor.

The third and last conference between M. Ribot and M. Bark was held in July 1916, immediately after the Allied Economic Conference. This conference of the French and Russian Finance Ministers led to a renewal of the previous agreement, which made it possible to continue the monthly advances of 125 million francs.

It was, as has been said above, in the course of this conference that the question of issuing a Russian loan in the French market was raised, but without practical result. Measures to facilitate the provision of French exchange for the needs of Russian trade and industry were also discussed once more. M. Bark suggested that the amount of the monthly advances by France be raised from 125 million francs to 150 million francs, that 10 million francs of the additional sum serve for the acquisition of foreign exchange to meet the requirements of private trade, and another 10 million francs, for the pay-

ment of interest and dividends to French holders of private Russian securities. M. Ribot agreed in principle to an increase of the monthly advances to 150 million francs, if this should be required for payments on war orders, but he felt unable to give up the view he had hitherto held, that France should open no credits except for war requirements.

Summary of War Debt to France.

We may now summarize the war debt incurred by Russia in France. Credits were opened in favor of Russia as follows:

	<i>Francs</i>
First Convention (February 1915)	625,000,000
Second Convention (October 1915) (23 monthly advances of 125,000,000 francs, October 1915 to September 1917)	2,875,000,000
Total	3,500,000,000

To that total should be added the credit of 500 million francs opened by the Bank of France in Russia's favor.

According to the official data available up to the 1st September 1917, the total disbursed, out of the credit of 3,500 million francs, was 2,865 million francs, including 1,268 million francs for interest and amortization, 1,432 million francs for payments on war orders, and 165 million francs representing the discount charged by the Bank of France.

By November 1917, the sum expended out of the credit aggregated 3,450 million francs, of which 1,530 million francs had been devoted to the interest and amortization of bonds.

In order, however, to ascertain with precision the amount of the debt to France, it would be necessary to know, on the one hand, the sums disbursed by the French Government for the payment of interest on Russian bonds to April 1918, and the amount of the coupons of Russian bonds that were accepted in part payment⁵ of subscriptions to the French long-term loan of November 1918; and, on the other hand, the results of the liquidation of war material and war contracts which have to be credited to Russia, as well as the expenditure incurred by Russia for the supply of grain and alcohol

⁵ These coupons were accepted in payment of 50 per cent of the subscriptions.

to France, which Russia did deliver, though on a scale that was insignificant as compared with the original proposals.⁶

⁶ The present monograph had been completed when M. Clémentel, French Minister of Finance, published his inventory of the financial situation of France (*Inventaire de la situation financière de la France au début de la treizième législature*).

This document contains a computation of the war debt incurred by Russia in France (pp. 176-177), which gives a total of over 6,000 million francs to 30th June 1924 (new style), distributed as follows:

	<i>Francs</i>
(1) Actual disbursements, including:	3,240,504,737
Interest on pre-war bonds	1,580,000,000
War material and supplies	1,640,000,000
Expenses of the Embassy	20,000,000
(2) Discount charge paid to the Bank of France	1,645,917,124
	<hr/> 4,886,421,861
Less Refund by Liquidation Commission and by banks	155,421,861
	<hr/> 4,731,000,000
Treasury disbursements: transfer of war material, coupons accepted in payment of subscriptions to loans, telegraph expenses	1,286,800,000
Budgetary expenditure for the maintenance of Russian prisoners of war and of Russian troops in the East (after the Revolution) and in the North	161,500,000
	<hr/> 6,179,300,000

From that total should be deducted an amount of 156 million francs, which represents France's share of the gold reserve that Russia had delivered to Germany and that Germany surrendered to the Allies after the armistice.

As regards the expenditure incurred by the French Government in providing supplies for the armies of Admiral Kolchak and of Generals Denikin and Wrangel, it amounted to 490 million francs to the 30th June 1924.

These official data should be borne in mind when reading the subsequent discussion, but we are not using them in computing the Russian debt, first, because M. Clémentel's data have not yet been confirmed by Russian authorities, and, secondly, because the estimation of other parts of the Russian debt undertaken in this monograph does not go forward as far as 1925. For instance, if M. Clémentel's figures were adopted, one would have to add to the pre-war debt the coupons the payment of which was withheld after 1917. This emphasizes once more that, in the absence of accurate, official, and final data, an estimation of the Russian war debt may be made only approximately, although undoubtedly with a great degree of accuracy.

3. CREDIT OPERATIONS IN GREAT BRITAIN.

We shall now consider the credit operations effected during the War in England.

The first British advance, that made in November 1914, was an operation of a special nature. The amount advanced to Russia was £12,000,000. However, to the extent of two-thirds of the amount involved, the operation represented the transfer of gold by Russia to England. At the same time as the credit of £12,000,000 was opened in favor of Russia, gold to the value of £8,000,000 was shipped from Russia to England. The gold was placed on board war vessels at Archangel, but in spite of all the precautions that had been taken, Germany was informed of the shipment, and German submarines laid floating mines along the route followed by the ships on their return journey. Some of the vessels were damaged, and it was decided that in order to avoid danger in the future, gold would be carried on Japanese cruisers to Canada via Vladivostok.

Before the first conference of the Allied Ministers of Finance, which was held in Paris in February 1915, the Russian Government addressed to the British Government a request for the grant of further credits, which it needed for the payment of interest on Russian bonds in England and in the Netherlands and for payments on army contracts placed in England and the United States. An arrangement was made under which the Bank of England was to discount Russian Treasury bills to an amount of £40,000,000. Of that amount, £20,000,000 were discounted in the month of January, and this sum was deducted later on from the credits that were opened to Russia by England under the agreement arrived at at the Paris financial conference.

Use of Russian Gold to Strengthen Bank of England Reserve.

The question of making Russian gold available to strengthen the gold reserve of the Bank of England was one that played a prominent part in the negotiations between the Russian Minister of Finance and the British Chancellor of the Exchequer. We shall understand this problem better if we consider it separately, before we proceed to the discussion of the credits opened to Russia by England during the War.

As we have seen, a shipment of gold to England to the value of

£8,000,000 was made by Russia in November 1914. While that transfer of gold amounted to a sale, the subsequent gold shipments represented advances of Russian gold to the British Government, which were subject to repayment on fixed dates.

The problem was doubtless of great importance to England. Payments for purchases and contracts in the United States could not be made entirely by the use of credits opened there, or through the sale of goods or of American securities, or from funds made available through the payment of interest and dividends on American stocks and bonds held in England. The shipment of gold, out of the reserve of the Bank of England, was required in addition. The floating of the Franco-British 5 per cent loan of £100,000,000, in New York, in the autumn of 1915, also required large shipments of gold to the United States. At the same time, England regarded it as essential that the gold reserve of the Bank of England should not be permitted to decline below a certain level, if British credit, which played a part of prime importance in the financing of the Allies, was to be maintained at its proper height.

These arguments were put forward by the Chancellor of the Exchequer with great conviction and emphasis in the course of his second and third conferences with M. Bark; and the Russian Minister of Finance fully admitted their force. If the problem could be considered irrespective of the general political, military, and economic situation in Russia, there would be no ground to question the fairness of the demand that Russia should contribute her gold to the operations undertaken by the British Government on the American market in the interest of all the Allies, including Russia.

However, the Russian Finance Minister could not consider the problem otherwise than in connection with the probable consequences of a diminution of Russia's gold reserve on the status of the ruble and, as a result, on Russia's economic life as a whole. The issue of paper currency had become of such importance as a method of financing the War, that a reduction of the gold cover, whose ratio to the notes in circulation had already been steadily declining, would have necessarily meant a further depreciation of the ruble and an advance in prices, not to mention the difficulties that an eventual restoration of a normal currency circulation might have encountered as the result of the sale or even the loan of gold. At the same time, Rus-

sia, unlike England or France, had no sources from which her gold reserve could be replenished during the War, except the output of the Siberian gold mines. Any impairment of the Russian gold reserve was most strongly opposed in political quarters and by public opinion.

It was in such conditions that the Russian Finance Minister had to face in London the pressing demands of the Chancellor of the Exchequer and of the Governor of the Bank of England. M. Bark explained at length the effects that a reduction of the gold reserve was bound to have upon the currency circulation in Russia and the purchasing power of the ruble. He tried to convince his Allied colleagues that while Russia was bearing the same sacrifices as her Allies, or even greater, at the front, she was much weaker than they economically. He urged therefore that no demands should be made upon her that might threaten to upset the economic organization and activity of the country; for this would necessarily affect her fighting capacity, in the full preservation of which all the Allies were interested. The Russian Minister of Finance consented, however, to provide Russian gold on a limited scale for the support of the Bank of England. But he insisted, through the three conferences that took place between him and the Chancellor of the Exchequer, that this support be given subject to the two following conditions. First, it was to be in the nature of a loan, subject to repayment at a fixed time. In the second place, it was to be entirely independent of the credits that England might open to Russia, or, in other words, that those credits should not be determined by the amount of gold lent by Russia.

During the first conference with the Chancellor of the Exchequer, which took place in Paris, in February 1915, the Governor of the Bank of England also took part in the discussion. The view originally held by Mr. Lloyd George was that there should be a relation between the credits that England might open to her Allies and the maintenance of England's gold reserve at the proper level. The Russian Finance Minister insisted, on the contrary, that those two matters were to be regarded as entirely distinct and separate. M. Bark added that Russia could not sell gold to England, and could only lend it, though for a long term, so as to be able to retain the gold as an asset of the State Bank, under the head of gold held in foreign

countries. The outcome of these conversations was the following statement adopted by the conference on the 4th February:

“In order to meet the desires of the Bank of England, the Russian Minister of Finance gives his consent on behalf of the Russian State Bank to the following arrangement, which the French Minister of Finance will, for his part, recommend to the Bank of France for adoption. In the event that the gold reserve of the Bank of England, including the special cover for the Currency Notes, should within the next six months decrease by more than £10,000,000, that is, if it should fall below £80,000,000, the Bank of England would be entitled to request that the Bank of France and the Russian State Bank advance to it jointly and in equal proportions a total amount of £12,000,000 in gold. The Bank of England undertakes in such an event to repay the gold thus loaned within not more than one year. The Bank of France reserves the right to use for this purpose such amounts in dollars as it might have at its disposal in the United States.”

The agreement, as worded on the 4th February 1915, was never applied in practice, but the question was raised again in connection with the 5 per cent loan of £100,000,000 (\$500,000,000) which was contracted by France and England in New York in the autumn of 1915. In order to assure the success of that loan, the Allies decided to transfer a considerable amount of gold to New York. A conference was held by M. Ribot and Mr. McKenna at Boulogne, in August 1915, to discuss the shipment of gold by the Bank of England and the Bank of France, to an amount of £40,000,000 by each bank, as soon as that might be required. The minutes of that conference contained a paragraph to the effect that “the two Governments will propose to the Imperial Russian Government that the Russian State Bank, for its part, hold ready for shipment to the United States an equivalent amount of £40,000,000 (\$200,000,000) in gold.”

The British Government accordingly undertook negotiations to persuade Russia to take a part in the action designed to strengthen England's gold resources, in accordance with the Franco-British agreement reached at Boulogne.

This proposal was thoroughly discussed in the Finance Committee, at Petrograd, and was accepted in principle. Acceptance was, however, made conditional upon the opening of credits to Russia by

England for all such payments as Russia might have to effect in any foreign markets, with the exception of the French.

The program submitted by M. Bark upon his arrival in England in September 1915 included accordingly, on the one hand, Russia's consent to lend £40,000,000 in gold for a fixed period, and, on the other, a demand for credits amounting to £300,000,000, to be granted for a period of one year. As we shall see below, he succeeded in obtaining the grant of monthly advances of an average amount of £25,000,000 during a period of six months, and a provision for the continuance of such advances during a further period of six months if the financial situation of England and her facilities for obtaining credits in the United States were not impaired by that time. Russia's undertaking to place at England's disposal £40,000,000 in gold as a loan for an indefinite term of years, likewise implied two operations, £20,000,000 being advanced in the first six months, and the remaining £20,000,000, in the next six months.

The conference of Finance Ministers, in accordance with a recommendation of Mr. Keynes, British technical delegate, decided that Russia's advance of gold should take the form of the purchase by Russia of British Treasury bonds, repayable in gold three years after the end of the War.

Inalienable Gold Credit for the Support of Paper Currency.

At the same time that arrangements were made for this loan of gold, the Chancellor of the Exchequer agreed to a proposal by M. Bark designed to strengthen the Russian currency, according to which a credit of £200,000,000 would be opened by the Bank of England to the Russian State Bank and would serve exclusively as cover for bank-notes issued by the latter. The advances on account of that credit were to be credited by the State Bank to its account of "gold holdings in foreign countries" and were not to be spent by the Bank.

The history of currency contained a precedent for M. Bark's proposal: In 1910, Greece had issued 12 million drachmas secured by a credit of 72 million marks opened by Bleichroeder.

As the opening of this credit placed no cash at the disposal of the State Bank, the operation met with many objections and was made the subject of repeated criticism.

The agreement with regard to the two gold transactions was worded as follows in the resolutions of the Anglo-Russian financial conference of September 1915:

“In view of the agreement between the British Government and the Government of the Republic of France, that each should hold ready for export to the United States a sum of £40,000,000 in gold, the Russian Government agrees to furnish the British Government with gold for the same purpose, to be exported from time to time in the same amounts as are being exported on account of the British and French Governments; subject to the limitation that the Russian Government shall not be called on to ship gold in excess of £20,000,000 before 31st March 1916 (new style), or more than £40,000,000 altogether, and on the understanding that gold will be exported only according to the needs of the situation, as judged by the Bank of England.

“The gold thus shipped by the Russian Government shall be used by them to purchase British Government Exchequer Bonds, bearing no interest, payable in gold, the bonds to be of maturities of 3 years, 3½ years, 4 years, 4½ years, and 5 years, in equal quantities, and to be held by the Russian Government until maturity.

“For the purposes of the Russian note issue and as a temporary measure pending the successful consolidation of the Russian internal debt, His Britannic Majesty's Government agrees to exchange with the Russian Government equivalent obligations, in such instalments as the Russian Government may require, to an amount in British currency not exceeding £200,000,000 altogether. On the part of the Russian Government these obligations shall consist of non-interest-bearing Russian Government Treasury Bonds. On the part of the British Government they shall consist of fixed book-credits which shall not be drawn upon. The above arrangement shall not extend beyond one year after the conclusion of peace, the equivalent obligations being cancelled on both sides not later than that date.”

Under the terms of that agreement, Russia shipped £10,000,000 of gold in December 1915 and £10,000,000 in June 1916. The shipments were carried by Japanese cruisers to Japan and Canada, to the order of the British Government.

In the course of the conversations held in London in July 1916,

at the time of the third Anglo-Russian financial conference, the question of supporting the Bank of England with Russian gold was raised by the Chancellor of the Exchequer once more with even greater insistence than previously. He protested, in the first place, against the fact that while Russia had undertaken to place at the disposal of England £40,000,000, she had actually shipped only one-half of that amount. M. Bark, in reply, pointed out that Russia's undertaking given in September 1915 to place gold at the disposal of the British Government was based upon the agreement concluded in August of that year between the British and the French Governments, and that it had been conditional, therefore, on the shipments of gold to the United States by England and France and on the time and the amount of such shipments. No gold, however, had been shipped by France, for that country regarded the Boulogne agreement as no longer operative after the successful conclusion of the loan in America. In these circumstances the Russian Finance Minister maintained that Russia also was released from the September agreement with regard to the shipment of gold.

M. Bark described in detail and with great energy the dangers to which Russia was exposed if her gold reserve were impaired, and the effects that this might have upon the purchasing power of the ruble, the movement of prices, and the general economic situation. While Russia was not stinting her sacrifices on the field of battle, it was essential for the common interests of all the Allies that nothing be demanded of her which might threaten her economic system.

The Chancellor of the Exchequer conceded the force of the arguments put forward by his Russian colleague, but he felt it impossible, at the same time, to withdraw his demand and he made the opening of further credits conditional upon the shipment of gold by Russia. Mr. McKenna pointed out that a decrease of the gold reserve of the Bank of England to a point below £50,000,000 would affect very unfavorably the rates of exchange and would make credit operations in the American markets impossible. He also drew attention to the fact that the French gold reserve was twice as large as the English, and the Russian 50 or 60 per cent larger. It was impossible for him to tell the House of Commons that he had spent all the British gold, while France and Russia had maintained their gold reserves intact.

The Anglo-Russian financial conference of 1916 did not result in any agreement, as M. Bark refused to meet the demands of the Chancellor of the Exchequer and left England without signing the convention which would have opened a six months' credit to Russia. The convention was subsequently ratified by the British and the Russian Governments, as a consequence of insistent representations by Count Benkendorf, the Russian Ambassador in London, who signed the convention. Under the terms of that agreement, Russia shipped the £20,000,000 of gold that were demanded to complete her quota under the agreement of September 1915, and she sent an additional £20,000,000 in February 1917. The total amount of gold sent by Russia to the British Government was therefore as follows, if the £8,000,000 sold in November 1914 are excluded:

	<i>Pounds Sterling</i>
December 1915	10,000,000
June 1916	10,000,000
November 1916	20,000,000
February 1917	20,000,000
	<hr/>
Total	60,000,000

In exchange for the gold shipped, Russia received bonds of the British Treasury. The transaction was entirely independent of the credits that were opened to Russia, and it was in the nature of a loan subject to repayment at various terms.⁷

The London Conferences. Resolutions Adopted and Credits Opened.

The British credits were different from those opened in France both in amount and in form. In amount, the advances that Russia obtained from England were three and a half times as large as those granted by France. As regards the form, the French advances were made in interest-free bonds of the French Treasury, which were discounted at a rate of 5 per cent, whereas the British advances were made through the discount of Russian Treasury bills, the discount rate rising from 4 per cent in November 1914 to 5 per cent in January-February 1915, 6 per cent in July-August of the same

⁷ In 1915, the Bank of France purchased 52 million francs of Russian gold, which were left on deposit at the Russian State Bank. On the eve of the October Revolution of 1917, Russia shipped 4,250,000 rubles to Sweden in connection with a credit operation that was planned in that country.

year, and $6\frac{1}{2}$ and 7 per cent thereafter. The credits opened by France were "closed" credits, that is, they might be drawn upon in France only, whereas the amounts advanced by England might be expended either in England or in other countries, with the exception of France, although the amounts that might be spent in certain countries were limited. The British credits might be used either for the payment of interest upon Russian loans or for payments on account of purchases and contracts, chiefly in England and in the United States. Finally, the credits opened by England included certain amounts to meet trade requirements, in addition to those needed for military orders, while the French credits included no allowance for commercial purposes. Our information is to the effect that an amount of 5 million francs, out of the monthly French advance of 125 million francs, was in the very last period of Russia's participation in the War placed at the free disposal of the Russian Government; in practice, however, that amount if we are not mistaken, was not applied to the needs of private trade. We have seen, on the other hand, that in France a credit of 500 million francs was opened for the redemption of the debts of Russian private firms.

As we said above, credits had been opened by England to Russia before the first meeting of the Finance Ministers in February 1915, namely, a credit of £12,000,000 in November 1914, and one of £20,000,000 in January 1915. England had also promised to supplement the latter by a further advance of £20,000,000. This supplementary advance was made at the end of February 1915, after the conference of that month, and there was advanced, in addition, in the months of July and August of that year, a sum of £50,000,000. The total advanced to September 1915 thus amounted to £102,000,000.

Besides this, the Russian Government entered into a contract with Messrs. Baring, on the 22nd February 1915, for the issue of £10,000,000 of Russian Treasury bills on the London market, through the medium of the Bank of England. Under the terms of the contract, Messrs. Baring were to take up all such bills as might not be disposed of to the public. The loan was successfully floated. In view of the moral obligation assumed by the British Government with regard to that issue, the bills, nicknamed "moral obs" in the

vernacular of the Stock Exchange, have now been exchanged for obligations of the British Treasury. For this purpose the British Government issued in 1918 £12,800,000 of 5 per cent Exchequer Bonds 1930.

In the spring of 1915, the Bank of England acquired Russian pre-war commercial bills, accepted by English banks, to an amount of £8,800,000. These bills were subsequently redeemed by the Russian Government, which had them debited to the amounts obtained through the discount of Russian Treasury bills under the agreement of February 1915. At the beginning of 1916, an arrangement was made by a syndicate of private Russian banks with a syndicate of English banks, under which the former obtained an acceptance credit, of which we have been unable to ascertain the exact amount, although we know that it was approximately £7,600,000.

Upon his arrival in London in September 1915, for a conference with the Chancellor of the Exchequer, M. Bark drafted a memorandum on Russia's credit requirements in the British market for the period to October 1916. The total amount required was estimated at 3,000 million rubles, including about 1,450 million rubles to defray the cost of supplies ordered and purchased in England and for interest payments in that country, and about 1,550 million rubles for payments in the United States on account of orders placed there. The total included also certain payments to be effected in Japan and in the Netherlands. Mr. McKenna agreed in principle to open the credits asked for by the Russian Finance Minister, up to a maximum amount of £25,000,000 a month. We have seen above that the question of a gold advance by Russia to England was raised on that occasion, and we have shown how that question was dealt with. As the Chancellor of the Exchequer had no absolute assurance that the Allies would be able to obtain all the required credits in the United States, the monthly advance of £25,000,000 to Russia was definitely pledged for six months only, while it was conditionally promised for the succeeding six months, from April to October 1916. The total advances made in the year to October 1916 actually amounted to £300,000,000. Russian Treasury bills were accordingly discounted during that period for one amount of £30,000,000, ten amounts of £25,000,000, and one of £20,000,000, at discount rates of 6, 6½, and 7 per cent.

The third meeting of the Chancellor of the Exchequer and the

Russian Finance Minister, in July 1916, resulted in a convention, subsequently ratified, by which England agreed to open a new credit to Russia to the amount of £150,000,000. In addition, the British Treasury discounted, in November 1917, £9,700,000 of Russian Treasury bills.

The amount of Russian Treasury bills that were discounted by the Bank of England may thus be summarized as follows:

	<i>Pounds Sterling</i>
Prior to the first agreement	32,000,000
Under agreement of February 1915	70,000,000
Under agreement of September 1915	300,000,000
Under agreement of October 1916	150,000,000
Discounted in November 1917	9,700,000
Acceptance credit	7,600,000
	<hr/>
Total	569,300,000 ⁸

To this total should be added the £10,000,000 of Russian Treasury bills that had been issued through Messrs. Baring and were later exchanged against British Exchequer bonds. With this addition, Russia's debt to Great Britain would total £579,300,000.

4. RUSSIA'S CREDIT OPERATIONS IN THE UNITED STATES, JAPAN, AND ITALY.

Before the entry of the United States into the War, Russia effected payments for her orders placed in that country chiefly with the aid of credits opened by England.

Of those British credits, almost one-half were spent by Russia in the United States. In addition, Russia discounted in America, in February 1915, through the agency of a syndicate of banks headed by J. P. Morgan and Company and the National City Bank, \$25,000,000 of three-month Treasury bills, at 5 per cent, plus a commission charge of 0.5 per cent. These bills were renewed in May of that year, and they were redeemed in August. After the

⁸ A certain amount in cash (£17,000,000) was advanced by the British Government when Russia was already under Bolshevik rule. We do not include that advance in the total given in the text, as it was offset to a certain extent, which it is impossible to ascertain exactly at the present time, by the liquidation of war material which Russia had purchased out of the credits opened to her in England.

entry of the United States into the War, the Washington Government opened to Russia credits totalling \$325,000,000, as follows:

16th May 1917	\$100,000,000
17th July 1917	75,000,000
23rd August 1917	100,000,000
12th October 1917	50,000,000
Total	<hr/> \$325,000,000

An additional credit of \$125,000,000 was opened on the 1st November 1917, but it was cancelled by the Washington Treasury Department on the 28th December 1917, after the Bolshevik Revolution.

The amounts drawn by Russia, out of the total credits of \$325,000,000, were as follows:

6th July 1917	\$ 35,000,000
13th July 1917	5,000,000
13th July 1917	5,000,000
1st August 1917	2,500,000
22nd August 1917	2,500,000
24th August 1917	37,500,000
30th August 1917	5,000,000
30th August 1917	5,000,000
25th September 1917	5,000,000
25th September 1917	5,000,000
25th September 1917	5,000,000
2nd October 1917	22,200,000
11th October 1917	5,000,000
11th October 1917	5,000,000
11th October 1917	5,000,000
11th October 1917	5,000,000
24th October 1917	5,000,000 ⁹
1st November 1917	31,700,000
15th November 1917	1,329,750 ¹⁰
Total	<hr/> \$192,729,750

⁹ This amount of \$5,000,000 was intended for a credit that the Russian State Bank was proposing to open to Rumania. In view of the refusal of the Rumanian Government to avail itself of this loan of 25 million rubles, and upon the request of the United States Treasury Department, dated the 25th November 1917, the \$5,000,000 advanced for this purpose was reimbursed on the 3rd December 1917.

¹⁰ This amount was intended for the payment of interest to the Government of the United States, which fell due on the 15th November 1917.

The total drawn by Russia thus amounted to \$192,729,750, or, if we deduct the amount of \$5,000,000 intended for a loan to Rumania, which was subsequently reimbursed, \$187,729,750. The balance of the credit of \$325,000,000, amounting to \$137,270,250, was cancelled by the United States Treasury Department on the 31st March 1919, as it had not been utilized. In addition to the credits described above, Russia issued on the American market a total of \$36,000,000 of short-term Treasury bills, in the following circumstances. In April 1915, 5 per cent Treasury bills to an amount of \$10,200,000, maturing the 1st May 1916, were delivered to the National City Bank for payments to the Pressed Steel Car Company for railway cars ordered by the Ministry of Transport. The bonds were in denominations of \$1,000, \$5,000, and \$10,000, and were issued at 98.

In order to redeem those bills, an agreement was entered into with the National City Bank, in April 1916, under which the Bank undertook to discount a new series of 5 per cent twelve-month bills to a total amount of \$11,000,000, issued at 98, and redeemable on the 1st May 1917. On the latter date, the bills were renewed for another year, at 97. After the Bolshevik Revolution, an arrangement was made with the holders of these bills, who agreed to refrain from presenting them for redemption, and were, on the other hand, to receive interest payments on the 1st November 1918 and on the 1st May 1919, at 5 per cent per annum.

The holders, however, had agreed to a further postponement of redemption only on condition that the yield of the bills should be raised to 6 per cent, and that additional security should be pledged for the bills in the shape of the 5½ per cent War Loan bonds, of a nominal amount of 147 million rubles, which had previously been sent by the Russian Credit Office to the National City Bank to be disposed of on the American market.

Under a supplementary agreement with the holders, on the 1st May 1919, the redemption of the bills was deferred for another six months, that is, to the 1st November 1919, on the same conditions as were provided under the previous agreement. When the bills fell due, on the 1st November, the holders agreed to refrain from liquidating the additional security pledged.

Another transaction was that between the Russian Ministry of Finance and a group of American banks, headed by the National

City Bank, under a contract of the 5th June 1916. The banking group was given the option of acquiring five-year $5\frac{1}{2}$ per cent bonds of the Russian Treasury, for a nominal amount of \$55,400,000, in fractions of not less than \$5,000,000, at a price of $94\frac{3}{4}$, and with a commission charge of 0.5 per cent.

In October 1916 the banking group proposed to issue $5\frac{1}{2}$ per cent bills on the American market to a nominal amount of \$25,000,000. The Ministry of Finance agreed to the transaction and granted the banks a commission of .0125 per cent of the amount disbursed by them for payments of interest and principal.

This issue of \$25,000,000 in $5\frac{1}{2}$ per cent bills was dated the 18th November 1916, and was acquired by the banking groups in denominations of \$1,000, \$5,000, and \$10,000. The bills were redeemable on the 1st December 1921, with interest payable on the 1st June and the 1st December. The proceeds of the loan were placed at the free disposal of the Russian Ministry of Finance.

Adding these \$36,000,000 of private loans to the credits opened by the United States Treasury, we obtain a total of \$224,000,000 for the Russian debt in the United States.

Mention may also be made of the exchange transaction with the syndicate of American banks headed by the National City Bank, which was arranged for on the 5th June 1916, and involved the opening of a credit of \$50,000,000 at $6\frac{1}{2}$ per cent. We have not included this credit in the total of Russia's debt in the United States given above, as we have no exact data as to the actual results of the transaction.

Under the arrangement, a credit of \$50,000,000 was opened to the Russian Ministry of Finance in New York, against a credit of 150 million rubles opened by the Russian State Bank to the syndicate of American banks. The operation involved a charge of $7\frac{1}{2}$ per cent per annum for Russia (including commission at the rate of 1 per cent, payable quarterly). It had apparently been understood by the Ministry of Finance that the \$50,000,000 credit should be a strictly banking operation, and the Ministry had not expected that the syndicate would, in accordance with American practice, issue in the open market in its own name $6\frac{1}{2}$ per cent certificates, in denominations of \$1,000, \$5,000, and \$10,000, representing corresponding amounts of the credit granted to Russia. This advance of \$50,000,000 was redeemable on the 18th June 1919; interest was

payable on the 10th January and the 10th July, and the commission, on the 10th January, 10th April, 10th July, and 10th October.

This transaction caused some alarm in British financial quarters, as it was thought that it might affect the status of the ruble, by enabling the American banking group to throw 150 million rubles on the market. As a matter of fact, the object of the group in acquiring rubles was to undertake certain operations which could not have an adverse effect upon the quotation of the ruble. Finally, several attempts were made to sell bonds of Russian domestic war loans on the American market.

In December 1916 a first lot of bonds of the second 5½ per cent war loan issue were delivered to the National City Bank, for a nominal amount of 50 million rubles, with coupons falling due on the 1st April 1917. In March 1917 a second lot was delivered, consisting of bonds of the first issue, for a nominal amount of 150 million rubles, with coupons payable on the 1st February 1917. Of these two lots the following amounts were sold:

	<i>Rubles</i>
Bonds of the first issue	47,100,000
Bonds of the second issue	5,850,000

As an inducement to purchase these internal war loan bonds, the Credit Office, by agreement with the National City Bank, arranged for the payment of interest in dollars, at a rate of exchange prescribed for each month by the Ministry of Finance for all coupons presented for payment during the month, irrespective of the rate of exchange that prevailed at the time when they fell due. The first registration of bonds took place in June 1917, when bonds for a nominal amount of 10,945,650 rubles were presented, and the second registration in October of the same year. There were registered, in all, in June and in October, bonds of a nominal value of 49,115,300 rubles. Payment of the coupons in dollars was continued by the National City Bank after the Bolshevik Revolution, at rates indicated by the Russian Financial Agent. Payment was discontinued on the 1st June 1919. The total paid out after the Bolshevik Revolution was \$256,631.45.

In addition to the 5½ per cent War Loan bonds thus sold by the Ministry of Finance, considerable amounts were imported into America by private banking institutions, apparently with the con-

sent of the Ministry. The exact amount of such bonds cannot be ascertained.

The Ministry of Finance had intended to sell a large amount of 5 per cent bonds of the Liberty Loan of 1917 in the United States. But the Russian Financial Agent reported that the United States Government, which was then floating its own loans, partly for the purpose of opening credits in dollars for its Allies, could not approve of the sale of internal securities of those same Allies on the American market as a means of securing dollar exchange. The Credit Office accordingly abandoned the project. The Russian Financial Agent in the United States was then directed to arrange with the National City Bank for the sale of Liberty Loan bonds in South America.

Russia's payments in Japan were effected partly with the aid of British credits. The payments were on account of orders for artillery supplies, automobiles, textile fabrics, pharmaceutical products, etc. The Russian debt in Japan proper consisted of two portions: on the one hand, of private debts to Japanese contractors, who were paid in part in short-term bills, and, on the other, of Russian Treasury bills discounted at the Bank of Japan and others placed on the market by a syndicate of Japanese private banks. On the 2nd February 1916, the banking syndicate thus sold 50 million yen of the Russian Treasury bills, running for twelve months, and bearing interest at 5 per cent, with a commission charge of 1 per cent. On the 1st April 1916, the Bank of Japan discounted Russian Treasury bills to an amount of 15,500,000 yen, at 5 per cent interest, plus 1 per cent commission. This operation was designed to provide for payment for war vessels acquired from Japan. At the second renewal of these bills, on the 25th September 1917, the principal was increased by the addition of accrued interest and commission, amounting to 1,667,000 yen. On the 12th September 1916, the syndicate of Japanese banks took over an additional amount of 70 million yen of twelve-month Russian Treasury bills, at 6 per cent interest and $1\frac{1}{2}$ per cent commission. These bills were redeemed out of the proceeds of Russian Treasury bills discounted by the Bank of Japan in September 1917 to an amount of 105 million yen. Finally, on the 25th September 1917, the Bank of Japan discounted 50 million yen of Russian Treasury bills at 6 per cent and a commission of 1 per cent.

On the 9th January 1918, the Japanese Government issued 5 per cent Treasury bills and allowed Japanese private banks and other holders of Russian Treasury bills that had been sold by the Japanese banking syndicate to exchange their holdings against the new issue. As a result of this exchange, the Japanese Government is now Russia's creditor for a total amount of 221,667,000 yen, borrowed by Russia in Japan in the course of the above operations.

In addition to this total, various Russian government departments delivered 5 per cent Russian Treasury bills to Japanese firms in payment for war contracts placed in Japan. The total of the bills thus delivered was 81,773,125 yen, of which 14,556,096 yen were redeemed, while the remaining 67,207,029 yen were exchanged for Japanese Treasury bills. There is outstanding, finally, a debt of 6,652,390 yen to the Japanese Navy Department. Russia's total war debt in Japan thus amounts to 296 million yen.

To complete this survey of the credit operations undertaken by Russia in foreign countries during the War, we should mention the acceptance credit of 221 million lire which was opened in Italy.

5. TOTAL WAR DEBT IN FOREIGN COUNTRIES.¹¹

No complete and exact statement of Russia's foreign indebtedness at the time when she withdrew from the War has been published either in Russia or in the creditor countries. The only official Russian summary that we have, which is reproduced below, refers to the 8th October 1917, and has been kindly communicated by M. Bernatzky. We shall make the necessary corrections and additions to this summary with the aid of the data of more recent origin that are now available and that we have used in the preceding discussion.¹²

¹¹ The figures given in this section with reference to Russia's war debt to France, as well as those regarding the total foreign debt, in so far as they are affected by the debt to France, are subject to certain corrections, in accordance with the data published by M. Clémentel in his *Inventaire de la situation financière de la France*. (See above, p. 301, n. 6.)

¹² It is the absence of official and detailed data that accounts for the discrepancy between the totals of Russia's foreign indebtedness as shown by different authors. Thus, A. Dementiev (*Vestnik Finansov*, 1917, No. 39, p. 368) puts the total at 8,070,700,000 rubles, as on the 1st September 1917, and he indicates that the nominal amount of the obligations is 8,461 million rubles, which includes 390,400,000 rubles of interest deducted in advance. This calculation is not quite clear, inasmuch as not all Russia's foreign debt

Russia's War Debt Abroad to the 8th October 1917.

<i>In Great Britain.</i>		<i>Pounds Sterling</i>
Credits opened before the Agreement of September 1915	102,000,000	
Credits opened under the Agreements of 1915 and 1916	435,090,000	
Acceptance Credit for the liquidation of debts of Private Firms	6,500,000	
Credits opened to the State Bank as basis for increased Currency Issues	200,000,000	
Total	743,590,000	
<i>In France.</i>		<i>Francs</i>
Credit opened under the Agreement of February 1915	625,000,000	
Credits opened under the Agreements of 1915 and 1916	2,445,000,000	
Credit opened to the State Bank for the liquidation of Debts of Private Firms	500,000,000	
Total	3,570,000,000	
<i>In the United States.</i>		<i>Dollars</i>
Credits opened by Private Agreements, before the entry of the United States into the War	36,000,000	
Advances by the United States Treasury	154,700,000	
Total	190,700,000	
<i>In Japan.</i>		<i>Yen</i>
Loans contracted in Japan	221,667,000	
Bills delivered to Japanese Firms on account of War Orders	19,210,384	
Total	240,877,384	
<i>In Italy.</i>		<i>Lire</i>
Acceptance Credit	221,000,000	

took the form of discounted Treasury bills, though most of it did. B. Eliashev (*Les Finances de guerre de la Russie*, Paris, 1919, p. 130-131) gives approximately the same total (8,062 million rubles) as the final figure, not as that referring to the 1st September 1917; furthermore, some of the component figures on which this total is based are inaccurate. A. Rafalovitch (*La Dette Publique Russe*, Paris, 1922, p. 54) gives a final total of 7,680,459,833 rubles. J. A. Pavlovsky (*The Russian Economist*, No. 1, p. 174) and A. N. Saek (*Razverstka Gosudarstvennikh Dolgov*, i.e. *Apportionment of Government Debts*, Berlin, 1923, p. 78) calculated the total of Russia's war debt abroad at 7,428 million rubles. In the last-mentioned total some of the component items are incomplete, and, in addition, an arithmetical error has been made in the calculation.

As far as Russia's debt in England is concerned, we must deduct from the figures given in the table above, first, the credit of £200,000,000, opened to the State Bank as a basis for increased note circulation. Then, as regards the credits opened under the agreements of 1915 and 1916, we have seen that, according to the figures of the situation at the end of 1917 and if the acceptance credit of £7,600,000 is included, they total £569,300,000. Adding to this £10,000,000 of bonds placed through Messrs. Baring and the Bank of England, we obtain a grand total of £579,300,000, or 5,480 million rubles at par of exchange.

Our analysis of Russia's debt in France showed a total of 3,500 million francs, to which should be added the credit of 500 million francs opened by the Bank of France for the liquidation of the debts of private firms. This would make a grand total of 4,000 million francs, or 1,500 million rubles at par.

As regards the war debt incurred in the United States, we have seen that it totalled \$234,000,000, or 435 million rubles at par of exchange, if we leave out of consideration, for the reasons stated above (page 134), the \$50,000,000 credit opened by the American syndicate headed by the National City Bank.

Our computation has shown that Russia's debt in Japan amounted to 296 million yen, or 290 million rubles at par, and that the debt incurred in Italy was 221 million lire, or 83 million rubles (£8,800,000).

These data permit the total of Russia's war debt in foreign countries to be stated as follows (in rubles and in pounds sterling at par) :

<i>Debt Incurred In</i>	<i>Rubles</i>	<i>Pounds Sterling</i>
Great Britain	5,480,000,000	579,000,000
France	1,500,000,000	159,000,000
United States	435,000,000	46,000,000
Japan	290,000,000	30,700,000
Italy	83,000,000	8,800,000
	<hr/> 7,788,000,000	<hr/> 823,500,000 ¹³

¹³ See p. 252, n. 9.

CHAPTER IV

CONCLUSION

I. GENERAL TOTAL OF THE RUSSIAN GOVERNMENT DEBT.¹

A COMPUTATION of Russia's total war debt, internal and foreign, encounters the same difficulties as were met when we attempted to ascertain with precision its several component parts. No official data about the public debt were published in Russia for the last period of her participation in the War, that immediately preceding the October Revolution. Thus we have no data, in particular with regard to the issue of the Liberty Loan or of the 5 per cent Treasury bills, up to the date of the Bolshevik Revolution. Nor have the several creditor countries published any detailed reports with regard to the debt incurred by Russia in those countries.

However, the total of Russia's war debt is so large that it can be affected only to a comparatively small extent by such errors as may be due to deficient information.

From the figures given in the preceding discussion, we can arrive at the following total of Russia's debt at the time of the fall of the Provisional Government and of Russia's withdrawal from the War:

	<i>Rubles</i>	<i>Rubles</i>
<i>A. Pre-War Debt.</i>		
Government Debt	8,691,500,000	
Guaranteed Railway and Mortgage Debt	(4,800,000,000 to 5,000,000,000)	
	<hr/>	
Total Pre-War Debt		13,500,000,000
<i>B. War Debt.</i>		
(1) Domestic Debt:		
Consolidated Debt (long-term and intermediate maturities)	12,010,000,000	
Treasury bills (other than those discounted by State Bank)	4,930,000,000	
Treasury notes	850,000,000	
	<hr/>	
Total Domestic Debt	17,790,000,000 ²	

¹ The total of Russia's war debt as given in this section was computed before the publication of M. Clémentel's *Inventaire de la situation financière de*

(2) Foreign Debt:		
In England, France, the United States, Japan and Italy	<i>Rubles</i>	<i>Rubles</i>
	7,788,000,000	
	<hr/>	
Total War Debt		25,578,000,000
		<hr/>
Grand Total		39,078,000,000 ³

Comparative Importance of the Various Classes of Debt.

The importance of war loans proper, as compared with the amount of Treasury bills discounted at the State Bank and representing bank note issues, is shown by the following figures:

	<i>Rubles</i>	<i>Percentage of Relative Importance</i>
Consolidated Domestic Debt (long-term and intermediate maturities) and Treasury notes	12,860,000,000	32.6
Treasury bills other than those discounted by the State Bank	4,930,000,000 ⁴	12.6
Foreign Debt	7,788,000,000	19.8
Treasury bills discounted by the State Bank	13,817,000,000 ⁴	35.
	<hr/>	<hr/>
Total	39,395,000,000	100.

The former table shows that of the total of 25,578 million rubles of war loans contracted by Russia, 17,790 million rubles, or 69.6 per cent, were issued on the home market, while 7,788 million rubles, or 30.4 per cent, of the total, were borrowed abroad.

This total of 25,578 million rubles formed 65 per cent of all borrowed resources, that is, those derived either from loans or from the discount of Treasury bills at the State Bank.

The total amount of bank notes issued during the War was 17,-
la France, and it is subject to correction in accordance with the data contained in that statement with reference to the debt incurred by Russia in France. (See above, p. 301, n. 6.)

² 31,607,000,000 rubles, if Treasury bills discounted by the State Bank are included.

³ 52,895,000,000 rubles, if Treasury bills discounted by the State Bank are included.

⁴ As was stated above, the amount for the period from the 1st September to the 25th October 1917 has had to be estimated approximately.

284 million rubles, the statement of the State Bank as on the 23rd October 1917 showing 18,917 million rubles of outstanding notes, as compared with 1,633 million rubles on the 16th July 1914. Thus of the total resources obtained by the Government through loans and currency issue, 60 per cent were represented by the former and 40 per cent by the latter.

There are no detailed official data available with regard to the variation of the several component parts of the public debt in each year of the War. In the discussion which follows we shall adopt the estimates of M. Dementiev, who had the most accurate data at his disposal, thanks to his position in the Finance Department. We should, however, bear in mind these observations: (1) M. Dementiev's figures with regard to loans refer to their actual yield to the Government, not to their nominal amounts; (2) his figures with regard to Treasury bills discounted differ somewhat from those given by M. Mukoseev, which we have used in the preceding sections; (3) the total of foreign loans as given by M. Dementiev is regarded by himself as subject to revision. As his computation is confined to amounts actually passed into the Treasury, he does not include the £200,000,000 credit which was opened to the State Bank to serve as a basis for increased note issues. Furthermore, the total of 8,070,700,000 rubles which he gives for the 1st September 1917 (or 8,461,100,000 rubles in nominal amount) is in excess of the actual amount then outstanding, a fact that may be explained by the inclusion of such credits as had been opened but had not been drawn upon.

*Proportion of War Expenditure Covered by Loans and by
Currency Issues.*

Subject to these limitations, the figures of revenue from loans,⁵ as compared with those of total war expenditure, were as follows in each year of the war.

The total expenditure caused by the war⁶ in the period from the outbreak of the War to the 1st January 1915, amounted to 1,655,400,000 rubles. To cover this, the Treasury had a cash balance of 514,200,000 rubles at the beginning of the year, 708,600,000 rubles

⁵ The figures given below differ from those used in the preceding discussion, which referred to the nominal amounts of the loans.

⁶ For a detailed statement of war expenditure, see A. Michelson's monograph in this volume, Chapter VI.

obtained through domestic long-term loans (including the 4 per cent Treasury bonds), and 82 million rubles borrowed abroad. In addition, there were issued, to the 1st January 1915, 5 per cent Treasury bills for a total amount of 844,700,000 rubles, of which 148 million rubles were sold to the general public or allotted to the government savings institutions. In 1915, expenditure caused by war requirements totalled 8,818,400,000 rubles. Domestic consolidated loans yielded 2,878,600,000 rubles, and foreign loans, 2,088 million rubles; 3,176 million rubles of Treasury bills were discounted, in which amount bills sold to the public or allotted to the savings institutions figured 601 million rubles. In 1916, a further large increase took place in war expenditure, which amounted to 14,572,800,000 rubles, as compared with 8,818,400,000 rubles in the preceding year; 4,173,900,000 rubles were obtained through domestic loans, and 3,664,800,000 rubles through foreign loans. Treasury bills were discounted to a total amount of 5,610 million rubles, from the 1st January 1916 to the 1st January 1917, and this sum included 1,976,100,000 rubles of bills sold to the general public. War expenditure from the 1st January to the 1st September 1917, totalled 13,603 million rubles. During the same period, the Treasury obtained 3,647,100,000 rubles through domestic consolidated loans, and 2,235,900,000 rubles through foreign loans. Treasury bills were issued for an amount of 6,835,200,000 rubles, of which 1,703,700,000 rubles were sold to the public or allotted to the investment funds of the savings institutions.

The total war expenditure, from the beginning of the War to the 1st September 1917, amounted to 38,649 million rubles, and to cover this, the Treasury, according to M. Dementiev's data, had the following resources:

	<i>Rubles</i>	<i>Rubles</i>
Cash Balance at Beginning of 1914 and Surpluses of Ordinary and Extraordi- nary Budgets (1914 to 1917)		2,611,600,000
Proceeds of Loans:		
Domestic	11,408,200,000	
Foreign	8,070,700,000	
Treasury bills (Domestic)	16,426,500,000	
	<hr/>	35,905,400,000
Total		<hr/> 38,517,000,000

The following table shows the comparative yield from the consolidated loans and from Treasury bills sold to the public or allotted to the investment fund of the savings institutions, excluding, that is to say, such Treasury bills as were discounted at the State Bank, and it also indicates the proportion of war expenditure that was covered in each year from the proceeds of loans:

<i>Year</i>	<i>Consolidated Domestic Loans</i>	<i>Treasury Bills</i>	<i>Foreign Loans (millions of rubles)</i>	<i>Total Loans</i>	<i>Total War Expenditure</i>	<i>Ratio of Loans to War Ex- penditure Percentage</i>
1914	708.6	148.0	82.0	938.6	1,655.4	56.7
1915	2,878.6	601.1	2,088.0	5,567.7	8,818.4	63.1
1916	4,173.9	1,976.1	3,664.8	9,814.8	14,572.8	67.3
1917 (to 1st September)	3,647.1	1,703.7	2,235.9	7,586.7	13,603.0	55.8
Total	11,408.2	4,428.9	8,070.7	23,907.8	38,649.6	61.9

According to M. Dementiev's figures, the proceeds of loans covered, from the outbreak of the War to the 1st September 1917, 61.9 per cent of the total war expenditure. In 1916, the proportion of war expenditure covered from this source was as high as 67.3 per cent. The factors that brought about the relative decline of loans as a means of financing the War were explained when we discussed the obstacles that interfered with the placing of the Liberty Loan. These factors were a product of the general political, military, and economic situation in 1917. The total war debt, which attained 23,907,800,000 rubles on the 1st September 1917, consisted to the extent of 15,837 million rubles of internal long-term and short-term loans, while foreign loans figure in the total for 8,070,700,000 rubles. The foreign debt thus forms 33.8 per cent of all war loans. Of the domestic debt, long-term loans and those of intermediate maturities, including the four-year Treasury bonds, form 72 per cent, while short-term issues account for 27.9 per cent. The proportion of war expenditure covered by the several forms of borrowing was as follows:

	<i>Percentage</i>
Expenditure Covered by Loans of All Kinds	61.9
Including:	
Domestic Long-term Loans	29.55
Short-term Issues	11.45
Foreign Loans	20.90

2. GENERAL REMARKS ON THE CREDIT OPERATIONS OF THE RUSSIAN GOVERNMENT DURING THE WAR.

A system of war finance under which no portion of the war expenditure is met out of taxation, while issues of paper currency cover more than one-third, cannot be regarded as rational, especially if the taxes levied do not fully provide even for the payment of interest on war loans, and this the taxes in Russia did not do as regards interest on the short-term debt.

A flood of note issues undermines the foundations of the economic system of a country and, as we have seen, it interferes with the successful floating of loans. The failure to resort to taxes to meet war requirements results in the predominance of borrowing as a source of revenue and, consequently, enhances all the harmful effects of this procedure in time of war. It is only by taxation that the consumer is taught economy. On the contrary, loans, by securing a considerable

revenue to the investors, result in the growth of consumption and a rise of prices. A too frequent and too extensive resort to loans throws an excessive burden upon future generations, who will have to provide for the payment of interest on the debts and for their redemption, and thus increases the difficulties of financial reconstruction after the War.⁷ Whenever war expenditure is met out of the proceeds of loans, the minimum requirement that must be complied with is that provision should be made in the ordinary budget for the payment of interest on such loans, and also for their redemption at the moment of maturity. As we have seen, that rule was not adhered to during the War in Russia as strictly and as consistently as it should have been. The ordinary budgets contained provision for the payment of interest on consolidated internal long-term loans and loans of intermediate maturities only. As regards Treasury bills, interest payments on them were not provided for in the budgetary appropriations for the debt service after the decree of the 14th August 1915 had permitted such bills to be issued on a discount basis, with interest deducted in advance from the nominal amount of principal, that is, on the same basis as bills issued in foreign countries.

The fact that foreign loans supplied one-third of the resources obtained by borrowing during the War was of advantage to the extent that it involved a correspondingly lesser strain upon the national reservoir from which Russia had to draw the greater part of the funds required for the War.⁸ Inasmuch as the use of that reservoir on an extensive scale overtakes the national economy and disorganizes it, all that serves to limit and to reduce such use should be regarded as economically beneficial. On the other hand, however, an extensive use of foreign loans to meet war expenditure has its disadvantages, as it requires the constitution of large reserves of

⁷ See Gaston Jèze, *L'Emprunt en temps de guerre*, in *Dépenses publiques, Théorie générale du Crédit Public*, sixth edition, p. 345.

⁸ This survey has been designed as a compilation and an analysis of actual data. We, therefore, do not dwell at all upon the question of the origin of the funds which Russia spent on the War or upon the controversies to which that question gave rise. We may say, however, that we fully share the view which is represented in Russian literature by S. N. Prokopovich (*op. cit.*, pp. 126 *sqq.*), according to which the national capital serves only to an insignificant extent as a source from which war expenditure can be met, the bulk of material values required for the conduct of the war being supplied by current production, that is, taken out of the national income.

foreign exchange for the payment of interest and principal on the foreign debts thus incurred, and creates considerable difficulties in respect of the maintenance of a creditor balance of international payments. This consideration may be of minor importance, however, when, as in the case we have under discussion, the foreign debt has been a transaction between allies, which served the objects of a joint struggle against a common enemy, and when the settlement of the debt may, therefore, be effected on a special basis adapted to this circumstance.

While we indicate all these defects in Russia's methods of war finance, we must admit that the efforts made by the country to cope with the situation, as well as the results attained, were colossal, if we consider all the extraordinary difficulties with which Russia had to contend, and which were unknown to her Allies.

Russia had entered the War in the midst of a period of splendid growth of her productive forces, with her government finances and currency system in an excellent condition, and with a large cash balance. Her sacrifices were without number and her military effort was as great, if not greater, than that of her Allies. As compared with them, however, Russia was still a country industrially underdeveloped, poor in capital and in technical resources, and with an insufficiently elastic system of taxation. To solve the complicated financial problems presented by the War was much more difficult for her than for the Allies.

In addition to this general consideration, which necessarily determined both the volume and the form of the financial measures, there were other factors at work, which have been discussed at length in the preceding pages. The courageous act of the prohibition of liquor, while it benefited the nation by preserving its vital forces, had the effect, at the same time, of violently upsetting the equilibrium of the State budget by depriving it of its most important source of revenue. Increased taxation consequently served only to restore the balance of the ordinary budget. Another circumstance that affected Russia's economic situation very strongly was the closing of her most important trade routes, whether by land or sea. This commercial isolation was painfully reflected in Russia's economic condition, her trade, the supplying of her industries, her customs revenues, the exchange value of the ruble. Finally, from the end of 1916 on, Russia

was passing through an acute political crisis culminating in the Revolution of March 1917 and in the disorganization of the economic system, of government finance, and of the currency. The effect of these economic factors was intensified by the vigorous Bolshevik propaganda against the further prosecution of the War and against the financial measures for that purpose. We have seen how the combination of all these economic and political influences affected the success of the Government loans in 1917.

3. SOME ASPECTS OF THE PROBLEM OF RUSSIA'S DEBT AFTER HER WITHDRAWAL FROM THE WAR.

It has been the object of this survey to set out and to analyze Russia's credit operations during the War and the Government debt as it stood at the time of the fall of the Provisional Government. The general conclusions arrived at, however, will gain in significance if accompanied by a statement, summary though it may be, of the problems raised with regard to Russia's public debt in general, and to that portion which had been placed abroad in particular, by the fact of the Bolshevik Revolution and the territorial dismemberment of the former Russian Empire.

One of the first acts of the Bolshevik Government was the repudiation of the Russian Government debt. That measure was enacted by a decree of the 8th January 1918. All government loans, domestic and foreign, and all guarantees given by the Government for various loans, were cancelled by that Act.

The repudiation Act met with an emphatic protest from the foreign Powers. On the 13th February 1918, the United States Ambassador in Russia, on behalf of all foreign States who had representatives in Russia, handed a collective note of protest to the Bolshevik Government, in which it was declared that the several Powers regarded the decree repudiating the debts, as well as all measures enacted for the confiscation of property, as null and void so far as their citizens and subjects were concerned.

In addition, France and England published a joint statement on the 28th March 1918, in which they declared their refusal to recognize the measures enacted by the Bolshevik Government for the repudiation of the Russian Government debt. "There is no principle," so the declaration read, "which is more firmly established than that

under which a nation is responsible for the acts of its Government, no changes in which may affect the obligations undertaken. No authority may renounce those obligations, as otherwise the entire structure of international law would be shaken to its foundations."

Then, as the prospects of an early fall of the Soviet Government diminished, and as hopes arose of a possible solution of the crisis in world economy through a restoration of Russia to her place in international economic intercourse, recognition of her debts by Russia became the central point of all plans designed to secure a resumption of relations with the Soviet Government.

This question was first raised in the course of the negotiations which the Supreme Economic Council, under a decision adopted on the 26th April 1920, conducted with the Soviet delegation for a commercial treaty with Soviet Russia. These negotiations and the resulting exchange of notes between Great Britain and France afforded an opportunity for the formulation of the fundamental principles on which the Allies took their stand. France considered it impossible to discuss the question of resuming official trade relations with Russia otherwise than in connection with the question of Russia's recognition of her debt, and this view was shared by Belgium. Great Britain, on the other hand, supported by Italy and to some extent by Japan, took a different attitude, and a trade agreement was concluded between Great Britain and the Soviet Government on the 15th March 1921.

In its endeavors to secure recognition and financial assistance from the Powers, the Soviet Government decided in the autumn of 1921 to make a partial concession in the matter of the recognition of debts. In a telegram addressed on the 20th October 1921, to the five great Powers, the People's Commissioner for Foreign Affairs offered a partial and conditional recognition of Russia's foreign debts. The recognition offered was partial, inasmuch as Tchitcherin mentioned only Russia's pre-war debts. The offer was also conditional, for Tchitcherin demanded recognition of the Soviet Government as a preliminary condition of the recognition of the Russian debt.

The French Government set forth its view with regard to this offer of partial and conditional recognition of the debt in a note addressed to the Government of Great Britain under the date of the 9th November 1921, in which it maintained that recognition of the debt

could not be treated as a concession and could not be made the object of a bargain, since it was the application of an unquestionable principle of law. Neither was the French Government willing to admit that recognition could be confined to any particular portions of Russia's debt. The entire Russian Government debt and that guaranteed by the Government must be recognized, and restitution and reparation must be granted in respect of all property of foreign subjects confiscated by the Soviet Government.

In the same note the French Government took up the practical question of how payment of the Russian debt could be effected, and it pointed out in this connection that economic restoration of Russia could not be brought about under the system prevailing in that country.

This French note, which was based, as the French Government pointed out, upon the same principles as had determined the attitude repeatedly expressed by the United States Government towards the Russian problem, contained in outline that mode of treatment of the question of Russia's recognition of her debt which was later embodied in the resolution of the Cannes Conference and was also adopted when the question of Russia's economic restoration was discussed at the Genoa Conference and at the conference of experts at the Hague.⁹ The essential points involved were as follows.

First, the question of the recognition of the Russian Government debt is treated in close connection with that of the restoration of the property of foreign subjects confiscated by the Soviet Government or of adequate compensation for that property. In the second place, the question of recognition of the debt is discussed in connection with that of the practical means of making payments on account of the debt. Thirdly, the possibility of Russia's paying her debts and providing the required compensation and reparation is shown to be dependent upon the economic restoration of the country, which alone can enable the Soviet Government to meet these obligations. Fourthly, the note states that the economic restoration requires the aid of foreign capital. Fifthly, it maintains that foreign capital can effectively participate in the economic restoration of Russia only on condition

⁹ Paul Apostol and Alexandre Michelson, *Questions d'ordre international soulevées par le problème de la Dette publique Russe*, in *La Dette Publique Russe* (Paris, 1922), in which will also be found a statement of the attitude assumed towards the problem by the associations of Russian bondholders.

that a number of legal and economic conditions or guarantees are provided, and that, without them, foreign capital will not have the assurance of even elementary security in Russia, and will consequently not be invested in Russian undertakings.

It was on this basis that the question of the Russian debt was discussed in Genoa and at the Hague. Neither conference, as is well known, led to any practical result.

All further attempts to bring about a settlement of the Russian debts were carried on by means of separate negotiations between the Governments concerned and the Soviet Government. In these negotiations the Soviet Government insisted on its *de jure* recognition as a preliminary condition, and outlined the following policy: the Soviet Government will not repeal the decrees annulling the Tsarist debts; liabilities incurred in connection with war loans are compensated by the claims for damages suffered by the Soviet Government as a result of the intervention of the Allies in favor of the White movement; the Soviet Government is prepared to compensate the holders of the pre-war loans, on the condition, however, that credits will be open to it chiefly for the purposes of economic reconstruction.

The Soviet Government was *de jure* recognized by Great Britain, Italy, and France, but so far (December 1926) the debt negotiations have given no result.

In 1924 the Soviet delegation succeeded in drafting two agreements with the MacDonald Government, a general and a trade agreement, the former contained provisions for the settlement of British claims and guarantees for a loan to the Soviet Government. These agreements met with a very hostile reception from British public opinion and the new Government which came into power after the election did not even lay them before Parliament.

In France the Soviet Government was officially recognized by the Herriot Government on the 28th October 1924. The Franco-Soviet Conference, which was called in order to discuss the settlement of financial, economic, and consular problems, carried on its work without reaching any conclusions until July 1926 when it was suspended; up to the present time (December 1926) its work has not been resumed.

Another problem arising in connection with the Russian Government debt is that of its apportionment, in view of the separation of

considerable territories that were formerly parts of the Russian Empire.¹⁰

The principle of the proportional allotment of a government debt in the case of separation of territories from a State has been firmly established in international law, and it is in accord with all historical precedents, as well as with the elementary requirements of justice.

Russia has lost enormous territories as a result of the formation of the new States of Poland, Finland, Latvia, Esthonia, Lithuania, and of the transfer of Bessarabia to Rumania. Without attempting to discuss the conditions under which the separation of some of these territories took place, a subject entirely beyond the scope of this work, we must affirm that Russia as now constituted cannot be held liable for the entire amount of the debts of the former Russian Empire.

The necessity of an apportionment has been proclaimed by the creditor countries. Thus, the French Government, in its note of the 25th November 1920, already referred to, stated: "The Russian State cannot assume full liability for the discharge of the Russian debt and of compensation for losses. All countries that have been, fully or partly, constituted out of territories that formerly were parts of the Russian Empire, ought to assume their respective shares of such payments and reparations, in a just proportion, according to the size and the value of the territories received." The Government of Great Britain accepted this principle in its note of the 14th June 1921, and the same principle has also been indorsed at meetings of the associations formed abroad for the protection of the interests of foreign holders of Russian bonds.

On the other hand, all peace treaties concluded by the Soviet Government with the Governments of new States formed in the territories of the former Russian Empire include clauses under which those States are relieved of all liability for their shares of the Russian debt.

This problem of the apportionment of the Russian debt has not received any practical solution up to now, just as no solution has yet been found of the problems arising from the repudiation of the debt by the Soviet Government.

¹⁰ See P. Apostol and A. Michelson, *op. cit.*; Sack, *op. cit.*; *Agence Economique et Financière, Suppléments Russes*, Juillet, 1923.

MONETARY POLICY OF THE RUSSIAN GOV-
ERNMENT DURING THE WAR

BY MICHAEL W. BERNATZKY

CHAPTER I

INTRODUCTION

RUSSIA'S TRANSITION TO A GOLD STANDARD, AND THE STATE OF THE CURRENCY ON THE EVE OF THE WAR.

1.

THE outstanding features of the financial history of the Russian Empire were the absence of any effective control over the currency and the disorganized condition of the monetary system. Without going into details, it may be observed that the Government, in search of new sources of revenue to meet the expenditure necessitated by constant wars, and lacking adequate facilities for borrowing abroad or at home, had, in the past, frequently succumbed to the temptation of tampering with the currency.

The essential principles on which the Russian monetary system was based had never been legally formulated. It may be assumed, however, that it was based, in theory, on the silver ruble—a unit whose metallic content has suffered many variations in the course of history. Although gold coins were also struck, and their value in circulation fixed by the Government, this did not imply the existence of a true bimetallic system; it might more properly be described as one of “parallel circulation” or a “limping” standard.

In practice, however, the country used depreciated paper money, originally introduced in the reign of Catherine the Great, by the issue, in 1769, of *assignats*. The issue of these notes steadily increased, with the result that in a little over a year they had sunk below their face value. Their convertibility was thereupon suspended, and the currency system of Russia soon acquired all the essential characteristics of a régime of inconvertible paper money.

Inconvertible paper money has existed in Russia, under various names, for nearly a hundred and fifty years,¹ with only a brief interval, when, from 1839 to 1854, she enjoyed the benefits of a comparatively stable currency based on a silver standard.

The work of currency reconstruction, initiated by Count Speransky in 1810, during the reign of Alexander I (1801-1825), aimed

¹ In this respect, the monetary history of Russia has much in common with that of Austria-Hungary.

at introducing silver monometallism, but this reform was never completed and the *assignats* did not rise above two-sevenths of their face value.

In the reign of the Emperor Nicholas I (1825-1855), the Minister of Finance then in office, Count Kankrin, succeeded in effecting a reform of the currency by withdrawing the *assignats* from circulation at the rate of 3 rubles 50 copecks to one silver ruble. It was, moreover, again enacted that the standard monetary unit of the Empire was the silver ruble, containing 4 zolotniks 21 dolias (17.97 gr.) of fine silver.

The existing paper money was converted into new notes, at first into *deposit notes*, and, after 1843, into *State credit notes* issued by the *State Credit Notes Office*^{1a} on behalf of the Treasury. These notes were covered by a reserve of metal in a fixed proportion, and their convertibility prevented their depreciation. Russia thus effected a temporary transition to a system of paper money convertible into silver. When the Crimean War broke out, the ratio of the reserve to the amount of notes in circulation was very high: the latter amounted to 333.4 million rubles, while the reserve had reached 161.3 millions. That disastrous and expensive war, however, necessitated a further excessive issue of paper money. By 1857 the amount of notes in circulation had risen to 735 million rubles, and convertibility had to be suspended: the country had returned to inconvertible paper money.

The reign of the Emperor Alexander II (1855-1881) was marked by a series of far-reaching reforms. One of the most important was an attempt to reorganize the currency system on a sound basis. The State Bank was founded in 1860 with this object; but, although it was one of the statutory duties of the Bank to "stabilize the currency," it was not provided with sufficient resources for the purpose: it did not even possess the right of issue. The Government, however, having, by means of a loan raised in England, increased the reserve of metal at its disposal to one-quarter of the total value of the notes in circulation, attempted to restore the convertibility of the currency. From 1st May 1862² the State began to redeem the notes at

^{1a} The *Ekspeditsya Gosudarstvennikh Kreditnikh Biletov*. There is no exact equivalent in English for the name of this bureau, nor for the paper currency which it printed. See below p. 346, n. 7.

² Dates are given according to the Russian calendar.

gradually increasing rates; it was hoped by this means to restore the notes to their face value in about two years. Once again, however, an unfavorable balance of indebtedness and a series of political complications compelled the Government to abandon the attempt on 7th August 1863, little more than a year after its inauguration. The experiment had considerably depleted the reserve of metal, while achieving but little towards reducing the circulation of notes.

In the middle 'seventies, as a result of Russian intercourse with England and Germany, the paper ruble began to be quoted in terms of gold. The first attempt made to prepare Russia for the adoption of the gold standard was due to Count Reutern, Minister of Finance at that time. He failed, however, to impress the Government with the necessity for sanctioning business transactions in terms of gold.

The Turkish War of 1877-1878 dealt the Russian currency system another heavy blow. The circulation of notes increased by over 400 million rubles, reaching 959.7 millions, while the real value of the ruble fell from 87.7 copecks to 63.2 copecks. The method adopted by which the "excess" of notes were to be withdrawn from circulation yielded unsatisfactory results and was ultimately abandoned. On the other hand, the Government's efforts to increase the reserve of metal available for the redemption of notes were much more effective. Most of the gold received by the Treasury from the proceeds of foreign loans, from the current production of gold, from customs duties and other sources was devoted to this purpose; the extent to which these efforts were successful, and their effect on the ratio of the reserve to the note circulation may be judged from the following figures:

<i>Years</i>	<i>Amount of notes in circulation (millions of rubles)</i>	<i>Value of gold reserve (in paper rubles at current rates)</i>
1877	766.9	186.5
1887	941.0	382.0
1888	971.2	389.0
1889	973.1	429.9
1890	928.4	475.2
1891	907.4	575.3
1892	1,054.8	612.2
1893	1,074.1	851.8
1894	1,071.9	894.8
1895	1,047.7	911.9 ³

³ These figures are taken from the official Jubilee publication on the occa-

These figures show that there was, in the early 'nineties, a distinct possibility of improving the currency. In 1882, M. Bungue, Minister of Finance, restored the free coinage of silver, discontinued by Reutern; in 1885, however, he restricted it by the imposition of heavy mint charges for the conversion of silver bullion into coin. As a matter of fact, it was at that time unprofitable to take advantage of the freedom of coinage, because the paper ruble was still below its face value in silver. In the early 'nineties, however, the market price of silver steadily declined, while the value of the paper currency became relatively stabilized both abroad and at home; the credit ruble, virtually convertible into gold, consequently rose to a premium over the silver coin. To permit the free coinage of silver to continue under these conditions would have entailed the danger that the Russian currency might ultimately come to be based on a silver standard.

M. Witte, appointed Minister of Finance in 1892, was responsible for the completion of the reorganization of the Russian currency begun by his predecessors and for the actual introduction of the gold standard.

2.

We have seen that, in the early 'nineties, the paper ruble began to appreciate in value, as compared with the silver coin. Had no measures been taken to improve the currency, the circulation in Russia would within a very short time have been completely saturated with silver, and the legally recognized silver standard would have been restored without any effort on the part of the Government, or any expenditure in carrying out the reform. This would have been, for various reasons, extremely injurious to Russian finances; for the fluctuating paper money would have been replaced by an equally unstable silver currency, which would, moreover, have been far more difficult to control. In the second place, most of the Russian foreign loans had been raised in gold, and no less than 150 million rubles of interest had to be paid annually in that metal, in addition to other expenditure payable in gold, while the internal production of gold did not exceed 30 to 40 million rubles a year.

The newly appointed Minister of Finance was called upon, in the first place, to deal with the "silver menace." He obtained an Imperial

sion of the 50th anniversary of the State Bank, *Banque Impériale de Russie*, St. Petersburg, 1910, pp. 9, 16.

Command (having the force of law), dated the 16th July 1893, to the effect that: (1) the Mint was no longer to accept silver bullion for conversion into new coins; (2) the importation of foreign silver coins of every description was prohibited. From this date also, the Minister of Finance proceeded to fix low rates of exchange for silver rubles tendered in payment of customs duties.

Witte's next important step was to put an end to the active and widespread speculation in Russian paper rubles that was proceeding on foreign markets, in which a number of Russian banks were participating. On 29th March 1893, a special "statistical" customs duty of 1 copeck per 100 rubles was imposed on the export of paper rubles. This rate was maintained until 1st January 1894. At the same time, all forward dealings in gold were prohibited and extensive powers were conferred on the Minister of Finance enabling him to supervise the activities of all credit establishments.

Having thus protected himself against the possibility of any further coöperation by Russian bankers in foreign speculation, Witte dealt a series of masterly blows at certain financiers in Paris and Berlin, who were trying to bring down the value of the Russian ruble. He intervened in their speculation through a number of agents and claimed the cash delivery of a large sum in Russian rubles, instead of accepting the payment of differences.

The question, however, remained whether the rate of 65-67 gold copecks to a paper ruble (about 150 credit copecks to 100 gold copecks) could be maintained, in view of the balance of Russia's indebtedness to foreign countries. Russian liabilities included the annual payment of 150 million gold rubles as interest on foreign loans, in addition to about 75 million rubles spent by Russians abroad. Russian assets included the gold produced in the country, amounting approximately to 40 million rubles a year; the balance had to be met from the excess of exports over imports; should this source fail, recourse must be had to the importation of foreign capital, mainly in the form of government or guaranteed loans. To secure an equilibrium and to maintain the rate of exchange of the ruble, the foreign trade of Russia had to provide annually a credit balance of about 200 million gold rubles. The failure of crops in 1891-1892 affected the situation adversely, with the result that during the years 1892-1896 the excess of exports over imports only averaged 113.1 million ru-

bles.⁴ It was evident that, had the notes been made convertible into gold at that time, without special precautionary measures, gold would have been drained from the country, and Russia would perforce have returned to inconvertible paper money. The Minister of Finance, however, showed no hesitation in adopting drastic measures. He was well aware, however, that even had Russia adhered to her former system of paper money it would still have been necessary to raise loans to meet the adverse balance of payments. Indeed, in the course of the years 1892-1896, Russia's foreign debts increased by 550 million rubles, of which 200 millions were incurred through the sale abroad of old loan stock and 350 millions represented new government loans and railway loans guaranteed by the State. The unsatisfactory condition of the Russian balance of indebtedness during the years in which the currency reform was effected furnished the opponents of the gold standard with one of their chief weapons.

Witte's opponents were indeed very numerous. Both inconvertible paper money and the silver standard had many open or secret sympathizers among the old landowning class, whose estates were heavily mortgaged, and for whom the depreciation of the currency meant a premium on the export of grain. They were supported by the middlemen of the export trade and by all those who were enabled by the depreciation of the currency to reduce their debts.

The influence of the large landowners, who formed the ruling class in Russia, was very strong in the State Council. Consequently, Witte soon realized that it would be hopeless to attempt to carry out his plan of reform in the usual way, by introducing the necessary bills into the State Council and subsequently submitting them for approval to the Tsar. He accordingly decided to adopt the unconstitutional course of securing the Emperor's assent to his measures in the form of direct Imperial Commands, and almost all the acts by which his currency reform was accomplished were promulgated in this form. One of the essential elements of the currency reform, however, was enacted by the State Council. The Memorandum of the State Council approved by the Tsar on 8th May 1895 provided that: (1) any lawful transactions might be made in terms of Russian gold coins; (2) payments resulting from such transactions might be

⁴ P. Migulin, *Gosudarstvenni kredit v Rossii (State Credit in Russia)*, Vol. III, Kharkov, 1907, pp. 220-221.

effected either in gold coins to the amount stipulated in the contract, or in *credit notes* at the existing rate of exchange against gold on the day of settlement. . . . The connection between the gold unit and its paper equivalent was formally severed by the Imperial Command of 26th May 1895. This act, although it never became operative, was of the greatest importance on account of the principle involved. It provided for the minting of gold coins bearing the inscriptions "5 rubles gold" and "10 rubles gold": the weight of metal in these coins was to remain unchanged. The Ukase of 3rd January 1897, however, decreed that gold coins should henceforth bear the inscriptions: "7 rubles 50 copecks," instead of "5 rubles" and "15 rubles" instead of "10." The unit of the new currency was therefore not the old gold ruble, but a coin representing only two-thirds of its value. It was this fact that gave Witte's reform the character of a legal reduction in the value of the monetary unit (devaluation); this was effected by a reduction in the gold contents of the actual coin.

The convertibility of paper rubles into gold at a fixed rate had been already restored by the authorization given to the offices and branches of the State Bank to sell and to buy gold coins. The Government now undertook to convert the notes into either gold or silver; and the former metal, being admitted to parallel circulation with the latter, was naturally valued at its current, instead of at its nominal rate. The unit adopted as the basis of the new monetary system was the exchange value of the paper ruble in terms of gold, slightly reduced to effect standardization.

It now became necessary to supplement the transition to a new standard by the establishment of a sound system of bank note circulation. We have seen that the State Bank had not hitherto possessed the right to issue notes, and there were numerous indications of the necessity for reform in other directions. In view of the general attitude of the State Council to his policy, the Minister of Finance entertained no hope of a speedy completion of his work; he accordingly endeavored to establish the essential principles of the issue of notes by means of Imperial Ukases. The right of issue, thus conferred on the State Bank, was added to its old statutory rights, while in all other respects the provisions regulating the work of that important institution remained unaltered.

The Ukase of 29th August 1897, referred to the convertibility of

notes into gold as a *fait accompli*: "the circulation of notes and of gold coins on a basis of equality is established"—a statement justified by facts, although hitherto not formally recognized. This Ukase provided for the issue of State credit notes by the State Bank to an amount strictly limited by the needs of circulation, and covered by a reserve of gold. The amount of gold held as security against the notes was not permitted to fall below one-half of the total amount of the notes in circulation, when the latter did not exceed 600 million rubles. Any issue of notes in excess of 600 million rubles had to be secured by a deposit of gold of at least equal value.⁵

The new unit of currency was therefore equal to one-fifteenth of the *imperial* or 15 ruble gold coins. This unit was fixed by the Imperial Ukase of 14th November 1897, which also provided for an alteration in the inscriptions on State credit notes, to the effect that "the convertibility of credit notes into gold is secured by all the resources of the State," and that "State credit notes have free circulation throughout the Empire on a basis of equality with gold coins." State credit notes, thus rendered convertible, preserved their original character of legal tender to any amount—a feature which is not a necessary attribute of bank notes, properly so called, but very convenient for the Government, should extraordinary circumstances arise.

On 22nd December 1897, an act was promulgated dealing with the position of the silver coinage. The silver ruble and other silver coins of full metallic value were now reduced, with the token coinage, to the position of a subsidiary currency.

As we have seen, these reforms were accomplished by means of a number of separate acts. It now became necessary to codify them in a new monetary statute. This Monetary Law was passed by the State Council and came into force on 7th June 1899. Simultaneously with its promulgation, the Council of State decreed that all former State, municipal, private, and other loans and contracts, made out in the old gold rubles, should be converted to the new unit at the rate of 1 old to 1.5 new rubles.

Article 3 of the Monetary Law set forth that the Russian currency was based on the gold standard. The monetary unit of the Russian Empire was the gold ruble, containing 17.424 dolias (about 0.7 gr.)

⁵ The Ukases are quoted from the book by P. Migulin, referred to above.

of fine gold. Article 5 established the free coinage of gold, fixing the mint charges at 42 rubles 31½ copecks per pud (36.11 lbs.) of gold. Article 12 enacted that no right of free coinage existed in the case of silver or copper. Silver coins of full metallic value, that is, 1 ruble, 50 copeck, and 25 copeck pieces were made legal tender between private individuals to the extent of 25 rubles; token silver coins (*i.e.*, 20, 15, 10, and 5 copeck pieces) and copper coins (5, 3, 2, 1, ½, and ¼ copeck pieces) to the extent of 3 rubles.

The last act, marking the completion of Witte's currency reform, was the final settlement by the Treasury of its accounts with the State Bank for the State credit notes issued by the latter and not yet fully covered by a reserve of gold. The last payment on account of this liability was made in virtue of the Ukase of 28th April 1900, which contained a solemn declaration to the effect that the reform was now fully completed; and which, moreover, contained the following significant words: "We find it to be imperative to declare by this act that it is Our firm decree that, henceforth, the issue of credit notes shall be made only in strict compliance with Our Ukase of 29th August 1897, and that it shall never be used as a source of revenue to the Treasury."

The following figures give an idea of the changes which took place in the composition of the Russian currency on the eve of the present century.

*Active circulation on the 1st January of each year.*⁶

	<i>Credit notes</i>	<i>Gold</i> (millions of rubles)	<i>Silver coinage of full metallic value</i>
1897	1,067.9	36.0	29.9
1898	901.0	147.8	78.9
1899	661.8	451.4	121.5
1900	491.2	641.3	145.3
1901	555.0	682.1	145.7
1902	542.4	694.2	140.3
1903	553.5	731.9	137.5
1904	578.4	774.8	133.2

Witte expressed the conviction that the new currency system was already so firmly established that it could withstand even a serious trial. The ordeal was not long in coming, in the form of the disastrous

⁶ See *Banque Impériale de Russie*, p. 16.

Russo-Japanese War and of the revolutionary upheaval which followed it. But, before considering this period in the history of the Russian currency, we must deal with some of the defects of Witte's important and otherwise successful reforms.

3.

The first and most important defect of Witte's currency reform was that it remained in practice unfinished. This was partly due to the fact that, owing to the opposition of the State Council, he had been compelled to proceed by administrative, as opposed to legislative, methods. The State Bank, on which, as the central credit institution of Russia, devolved the task of controlling the currency, had not been adequately reorganized for the purpose. In the Russian Legal Code, the provisions dealing with the issue of State credit notes are found in Section III of the Credit Statute, while the Statutes of the State Bank are in Section IV. The State credit notes, therefore, preserved their former technical character of inconvertible paper money, though they had been made strictly convertible and their issue had been entrusted to the State Bank; they should, therefore, have been regarded essentially as bank notes issued by the central Bank. Had the whole problem been treated in the right way, they would have been designated *notes of the State Bank*.⁷ But apart from this purely technical point, the old Statutes of the State Bank contained, in the first place, many articles incompatible with its new position as a bank of issue and, secondly, certain clauses which, if insisted upon by the Minister of Finance, permitted him to abuse the right of issue for fiscal purposes. Article I of the Statutes of the State Bank, while enumerating its various functions, contained no mention whatever of the issue of notes. The capital of the Bank (50 million rubles, plus 5 million rubles reserve) was not increased: now, a central bank of issue is called upon to engage energetically in foreign exchange operations, and the amount of its capital should therefore have been considerably augmented.

It is generally the case that the stability of bank notes depends

⁷ In order to avoid the use of unfamiliar terms, the notes issued by the State Bank and hitherto designated as State credit notes, in strict accordance with the Russian term, will in the following pages be referred to as State bank notes.

less upon the gold reserve held against them than upon the banking reserve of the issuing bank. In the former respect the Russian law was modelled upon the stringent provisions of Sir Robert Peel's Bank Act; in the more important matter of the security held by the bank, the Statutes allowed excessive latitude.

The unrestricted right of the Bank to make advances on securities was likely to lead to abuse. On presentation of an order from the Minister of Finance, to whom the Bank was directly responsible, the Treasury or any other government department could obtain an advance from the Bank against a deposit of government bonds, at any time and to an amount restricted only by the legal limit of fiduciary issue. No less dangerous were the transactions carried out by the State Bank on behalf of the Treasury. According to Article 178 of its Statutes, the available cash resources of the Treasury were kept on current account with the State Bank free of interest; it was not laid down, however, that the Bank only assumed responsibility for the payment of interest on government loans and for other expenses connected therewith (article 179) to the extent of the balance of that account. Nor was it stipulated that the whole of the cash resources of the Treasury, both in Russia and abroad, were to be concentrated in that account. The management of the Russian gold balances abroad was not, therefore, in the hands of one institution. In this case unity of control was ensured by the fact that it was exercised by the Minister of Finance; the State Bank, however, did not, as a credit institution, enjoy the right of controlling these resources.

The second of the defects referred to above was the large amount of silver coinage in circulation. The currency was "limping" on the side of silver, owing, not to the monetary system as enacted, but to the methods by which it was introduced.

Another of Witte's mistakes was the feverish zeal with which he pressed gold coinage into circulation, while simultaneously withdrawing notes. Such a depletion of the gold reserve could have been justified only if the settlements with foreign countries could be reckoned upon to leave a margin in favor of Russia: the years during which the reform was carried out gave no grounds for such assurance. Though this could certainly not be regarded as an obstacle to the introduction of the *gold standard* into Russia, it undoubtedly demanded the exercise of great circumspection in the actual

introduction of *gold coinage* into circulation. An unfavorable turn in the balance of Russia's accounts with foreign countries might easily result, under such conditions, in draining from Russia part of the gold reserve accumulated at such great sacrifice. To avert this danger, the Minister of Finance was compelled to resort to borrowing abroad on a large scale. He raised loans amounting to more than 1,000 million gold rubles for the construction of railways and for other purposes. These loans naturally benefited Russia's economic development; but, on the other hand, they imposed an increasing burden on the taxpayer, and also tended to make the future balance of indebtedness still more unfavorable to Russia. To M. Vishnegradsky, Witte's predecessor as Minister of Finance, is attributed the famous remark: "We may be underfed, but we shall export grain" (to maintain the exchange value of the paper ruble). The opponents of Witte's currency reform often observed that the gold standard in Russia owed its existence solely to the artificial support of foreign loans. In order firmly to establish the gold standard, great care should have been taken to develop the country's economic resources; and in particular no efforts should have been spared to raise the primitive standard of peasant farming. Witte fully realized this aspect of the problem, and he would certainly have undertaken the reform of Russia's whole economic organization, had circumstances permitted him to remain longer in power. Unfortunately, the political régime of the country was an insuperable bar to economic progress.

4.

The Japanese War, and especially the revolutionary upheaval which followed it in 1905-1906, subjected the gold standard to a severe trial. On the eve of the war, the State Bank had somewhat reduced its reserve of gold, to meet the urgent demand of the market for foreign exchange. Had the Bank failed to meet this demand, much of the gold in active circulation would have been exported. Immediately after the outbreak of the war, the Government, anxious to conserve its gold, instructed the State Bank to put into circulation, within the limits of its fiduciary issue, small notes of the value of 3, 5, and 10 rubles, and—in Siberia—even as low as 1 ruble. No gold was to be issued to the army operating beyond the frontiers of the Empire. The public, having lost the habit of using notes of

small denominations, became anxious lest their reappearance should mean a return to inconvertible paper money.

The changes which the Japanese War brought about in the composition of currency may be gauged from the following table:

Amounts in circulation.

	<i>State Bank notes</i>	<i>Gold coinage (in millions of rubles)</i>	<i>Silver coinage of full value</i>
Before the war	578.4	774.8	133.2
On 1st January 1905	853.7	683.6	123.0
On the conclusion of peace	924.0	654.1	112.7

At no time during the war did the Bank abuse its right of issue. It did, however, include in its gold reserve, besides the gold actually in its vaults in Russia, the gold balances standing to its credit with its correspondents abroad. Opinions differ as to the legitimacy of such inclusion: the statutes of certain banks of issue in western Europe permit it; but Russian law did not allow current accounts abroad to be regarded as part of the gold reserve.

By the end of 1905, when the revolutionary outbreak reached its climax, and large disbursements were required for the demobilization of the army, the gold reserve had considerably decreased. The balance sheets of the State Bank show that the legal limit of fiduciary issue was not exceeded, but this was so only because of the inclusion in the gold reserve of balances held abroad. On 1st January 1906, the gold reserve in the vaults of the State Bank fell to 700 million rubles, while the amount of notes in circulation reached 1,207.5 millions; gold balances abroad amounted to 226.5 million rubles. At the close of 1905 the position became so disquieting, mainly owing to the efforts of the revolutionary organizations to induce the public to withdraw their deposits from savings banks and to claim their payment in gold, that a secret order had to be issued to the branches of the State Bank, fixing a limit to the amount of gold to be included in any individual payment. The Government even went so far as to prepare the draft of a law temporarily suspending the convertibility of notes; fortunately, it proved possible to avoid recourse to this measure. In 1906, the gold reserve of the Bank was augmented by a very large loan raised abroad, so that, on 1st January 1907, almost the whole amount of notes in circulation was covered by gold, if we

include the balances held abroad: against a note circulation of 1,194.5 million rubles, the Bank held a gold reserve of 1,190.6 million rubles. From 1908 onwards, both the general financial position of Russia and her currency showed a steady improvement.

5.

By 1910, Russia had fully recovered from the effects of the Japanese War and the subsequent revolutionary outbreak; and from that date her economic development shows marked progress, as will be described in detail hereafter. The gold standard, which had proved sufficiently stable in practice, laid a solid foundation for the Russian money market, the capacity and independence of which were steadily increasing. In order to understand its characteristic features, however, it should always be remembered that, in capitalistic development, Russia was still a very young country, and was in need of a continuous and abundant influx of foreign capital. Her indebtedness to other countries, on account of both State and private loans, was therefore bound to leave its impress on her economic activities in general, and on her money market in particular. As in the case of all countries which have just begun their capitalistic development, the position of Russia with regard to foreign remittances was generally adverse, and the deficiency had to be met from the excess of exports over imports. In years when this excess was insufficient, the balance had to be restored by further borrowing.

Russia's principal annual remittance abroad was on account of the service of government loans.

Besides the service of government loans in the strict sense of the term, Russian remittances included large sums due to foreign holders of railway shares and debentures guaranteed by the State, of municipal loans, and of shares and debentures of private industrial and banking concerns.

The following items must be added to the 200 million rubles which represent the annual foreign payments on government bonds: about 40 million rubles on guaranteed stocks of railway companies and about 50 million rubles on other securities, making a total of, approximately, 280-300 million rubles a year. There were also the current liabilities of Russian private banks to foreign financial houses for short-time advances, interest, and dividends due to foreign owners of Russian securities actually deposited in Russia, and the incomes

derived by foreign owners from property in Russia. Further, since the Russian merchant fleet was insufficient to cope with the country's overseas trade, certain sums had to be added to the remittances on account of freights. Finally, there was the money spent by Russian travellers abroad. It would probably be fairly correct, therefore, to estimate Russia's foreign remittances at about 400 million rubles a year, with slight annual variations.

These payments which Russia had to make to wealthy countries, rich in floating capital, could only be effected out of the proceeds of her exports, which consisted mainly of grain, raw materials, and semi-manufactured goods. Her trade balances are shown in the following table:

Value of Russia's foreign trade.

<i>Years</i>	<i>Exports</i>	<i>Imports</i> (in millions of rubles)	<i>Excess of exports over imports</i>
1909	1,427.7	906.3	521.4
1910	1,449.1	1,084.4	364.7
1911	1,591.4	1,161.7	429.7
1912	1,518.8	1,171.8	347.0
1913	1,520.1	1,374.0	146.1
Average for the years 1909-1913	1,501.4	1,139.6	361.8

These figures show that the adverse balance of indebtedness could not always be met from the excess of exports over imports. On an average for the five years, 1909-1913, there was a deficiency of about 40 million rubles a year, which had to be made good by borrowing abroad. In these circumstances, Russia found it essential to make every effort to increase her exports, while reducing her imports to a minimum, and at the same time to economize on freights. This explains the strongly protectionist character of her industrial and trading policy, as well as her attempts to dispense, as far as practicable, with intermediaries on foreign markets. The efforts made to achieve the latter purpose resulted in growing friction with Germany, who had come to regard herself as the natural intermediary between Russia and the outer world. Germany was, however, unable to supply the capital necessary for Russia's economic development on anything like an adequate scale.

One peculiar characteristic of Russian settlements with other

countries must be alluded to. While the payments due from Russia to foreigners were more or less evenly distributed throughout the course of the year, her own receipts tended to be concentrated in the autumn months, when she disposed of her crops and exported most of her raw materials. The rate of exchange had therefore a distinct tendency to move in favor of Russia in the autumn and against her throughout the rest of the year. These periodic changes in the prevailing tendency imposed on the financial administration the very difficult task of stabilizing the rate of exchange and made it necessary to keep large balances abroad in foreign banks. Had the State Bank been more independent in its operations, and had its statutes been duly revised to meet modern needs, the control of the foreign exchanges would naturally have been entrusted to it, and its operations on foreign exchanges would have expanded to meet the situation. The State Bank would then have acquired much experience of transactions of this kind—as did, for instance, the Austro-Hungarian Bank—and its accumulated experience could have been turned to great advantage in the strenuous years of the World War. Unfortunately, its dealings in foreign exchanges never attained the necessary development, and it was found necessary to have recourse to the more primitive expedient of keeping large gold balances abroad. This practice has been criticized on the very reasonable ground that, in the case of a sudden emergency such as war, these balances, if not entirely lost, might cease to be available. A supply of foreign drafts would, in such a case, have proved of much greater service. These fears were, to a certain extent, justified by subsequent events. The total amount of the balances held abroad for this purpose is shown below:⁸

Gold balances held on current account by the Treasury, the Foreign Branch of the Credit Office, and the State Bank.

	(millions of rubles)
On 1st January 1908	320.0
On 1st January 1909	200.0
On 1st January 1910	517.0
On 1st January 1911	579.0
On 1st January 1912	587.0
On 1st January 1913	651.0

⁸ These and the following figures in this section are taken from the *Marché Financier Russe*, 1908-1912, diagrams 4, 6, and 7.

These balances, it will be observed, were continually increasing, for, in addition to the sums produced by foreign trade, they were augmented by part of the proceeds of railway and other loans. At the same time, the proportion of the balances standing to the credit of the State Bank, as compared with that of the departments of the Ministry of Finance, considerably decreased, as may be seen from the following figures:

	<i>1st January 1908</i>	<i>1st January 1913</i>
	(millions of rubles)	
On account of the Treasury and of the Foreign Branch of the Credit Office ⁹	103.9	428.4
On account of the State Bank	216.5	222.6

An idea of the length to which the policy of intervention in foreign exchanges was carried can be obtained from the following figures, showing the sales and purchases of foreign drafts on the Petrograd Exchange by the State Bank and the Foreign Branch of the Credit Office:

	<i>Purchases</i>	<i>Sales</i>
	(millions of rubles)	
1908	147.7	28.0
1909	331.4	6.1
1910	317.4	19.4
1911	275.2	47.8
1912	122.1	175.5

The one-sided character of these operations, in which purchases were predominant, was entirely due to circumstances; only during years when political conditions were unsettled—for instance, during the Moroccan crisis of 1911-1912—was there an excess of sales. In conclusion it should be said that, whatever may have been the faults of the policy of keeping large gold balances abroad, these balances formed a fund from which not only government departments, but also private banks, were able to obtain assistance in case of sudden difficulties.

⁹ The Credit Office (*Kreditnaya Kantselyarya*) was a department of the Ministry of Finance; its chief functions were as follows: the supervision of banks and mutual credit associations; the purchase and sale of foreign drafts abroad; transactions with foreign correspondents of the Ministry of Finance; as well as the administration of problems relating to state loans and currency.

6.

The introduction and firm establishment of the gold standard in Russia, combined with measures intended to prevent gold from being drained from the country, helped to lay a solid foundation for the development of the Russian money market, which, during the years immediately preceding the War, began to assume no little importance, and a considerable degree of independence.

Private banks, which were practically unknown in Russia before the emancipation of the peasants in the reign of the Emperor Alexander II, had grown, by the end of the last century, into a powerful network, and their importance was continually increasing. Before the great reforms of the 'sixties of the last century, practically the whole organization of credit was controlled by Government institutions. By the end of the nineteenth and the beginning of the twentieth century, however, conditions had entirely changed, and approximated to those found in any civilized capitalistic country, where a central bank of issue works in close coöperation with private commercial banks. But Russia's limited economic development and her comparative lack of capital gave the State Bank a predominant position in the money market. In western Europe the official rate of discount is, as a rule, higher than the market rate; but in Russia it was always *lower*, because the private banks were not yet sufficiently developed to meet the community's need in the matter of credit, or to relegate the central Bank to a position in which its operations would be confined to supporting the private establishments and exercising control over the machinery of currency and credit. We find, therefore, the Russian State Bank conducting general banking business, both directly and through private banking houses; it supplied the latter with short-term advances on a large scale against rediscounts and collateral securities.

The market rate of discount in Russia was usually 1 to 1½ per cent higher than the Bank rate, which, in its turn, was considerably higher than bank rates in western Europe: it was often double that of London and Paris and 1 per cent to 1½ per cent above that of Berlin. This was as it should be in a country in which capital had not accumulated and which needed to attract money from abroad. In 1909, 1910, and 1911, the State Bank's rate of discount stood almost invariably at 4½ per cent; in the spring of 1912 it was raised by

$\frac{1}{2}$ per cent, and at the end of that year by a further 1 to $1\frac{1}{2}$ per cent.

In the following pages an outline will be given of the relations between the State Bank and private credit establishments, of which the most important were the commercial joint-stock banks, which provided credit facilities for the current needs of industry and trade, issued securities, and concentrated on a large scale the savings of the population and the free cash balances of business firms. Secondly, there were the mutual credit associations which provided various forms of personal credit, and lastly, the municipal banks.

Although considerable facilities existed in Russia for obtaining short-term commercial credit, the same cannot, unfortunately, be said of long-term industrial credit. No banking house specialized in providing financial assistance for the development of the various branches of industrial and agricultural production. It is true that the State Bank did its utmost to meet these requirements, sometimes even exceeding the strict provisions of its statutes; but the incompatibility of transactions of this kind with its position as a bank of issue, was soon recognized by the Ministry of Finance, and its operations in this field were greatly restricted. The work of financing industrial concerns was sometimes undertaken, as in Germany, by the commercial joint-stock banks, although such transactions were, technically speaking, irregular.

Reference must also be made to the institutions for small credit; these, assisted by the State Bank, were rapidly increasing in number and, by exercising their functions at the very source of the economic life of Russia, greatly helped its development.

A survey of the Russian money market would be incomplete without some mention of the State savings banks, whose popularity increased year by year and which provided the Government with ample facilities for disposing of its securities. Indeed, the savings banks deposits alone represented *savings* in the strict sense of the word, since, in the eyes of the depositors, security counted for more than the rate of interest.

Mortgage business was principally undertaken by State banks, the Bank of the Nobility and the Peasant Land Bank, although money market conditions also permitted the development of private land mortgage banks. In the present work, however, we are con-

cerned with only one aspect of this form of credit—the issue of mortgage bonds.

The relative importance of the various types of credit establishments in Russia, and the progressive accumulation of money in the country are indicated by the following table.¹⁰

*Balances on deposit and on current account outstanding
on 1st January.*

	1908	1909	1910	1911	1912	1913
	(millions of rubles)					
State Bank	231	210	274	261	258	266
Private joint-stock banks	898	1,060	1,395	1,709	1,865	2,330
Mutual credit associations	229	271	329	406	487	545
Municipal banks	112	116	129	146	153	171

Sums held on deposit and on current account in institutions for small credits also showed a considerable increase during this period: from 95 million rubles on 1st January 1908, they rose to 276 million rubles on 1st January 1912, while on 1st July of the same year they reached 340 million rubles.

The following table shows how steady was the flow of savings into the State savings banks:

Savings banks deposits (cash and securities) on 1st December.

1908	1909	1910	1911
	(in millions of rubles)		
1,430.3	1,509.8	1,629.9	1,750.5

On 1st January 1912, the deposits amounted to 1,503.0 and on 1st January 1913, to 1,594.9 million rubles. The difference between the December and January figures is due to the withdrawal of deposits in connection with Christmas festivities; in the course of the following months these withdrawals were always more than made good. At the close of 1913, the deposits aggregated over 2,000 million rubles.

Some idea of the development of the Russian money market can

¹⁰ Figures taken from *Marché Financier Russe* and from *Obyasnitelnaya Zapiska Ministra Finansov k Proektu Rospisi Gosudarsvennikh Dokhodov i Raskhodov na 1917* (*Explanatory Memorandum of the Minister of Finance to the Draft Estimates for 1917*), p. 39.

be obtained from the following data, showing the aggregate deposits and current accounts in all credit establishments, including the savings banks:

Total sum on deposit and on current account on 1st January.

1908	1909	1910	1911	1912	1913
		(millions of rubles)			
2,969	3,247	3,833	4,404	4,842	5,228

The flow of money into the banks determined the extent of which they were able, by means of loans and discounts, to finance the economic activities of the country. The part played by the State Bank in this field of operations is shown in the following table:

Loans and discounts by Russian credit establishments outstanding on 1st January.

	1908	1909	1910	1911	1912
	(millions of rubles)				
State Bank	566	502	466	667	924
Private joint-stock banks	1,162	1,261	1,547	2,078	2,397
Mutual credit associations	271	316	369	506	683
Municipal banks	139	144	149	162	187
Institutions for small credit	148	175	213	279	375
Total	2,286	2,398	2,744	3,692	4,566

This table demonstrates that while the amount of these transactions was steadily increasing in all classes of banks, the proportion undertaken by the State Bank was diminishing; during the period under review it declined from 25 per cent to 20 per cent of the whole. This decrease was to be expected since the State Bank was primarily a central bank of issue, whose main function was to exercise supreme control over the currency and to maintain the credit system of the country; it was not its business to undertake direct credit operations on its own account and enter into competition with private banks in their own sphere. An analysis of the loan and discount business done by the State Bank serves to emphasize the increase in the work of private banks as *intermediaries in the provision of credit facilities*.

*Outstanding amounts of loans and discounts by the State Bank
on 1st January.¹¹*

	1911	1912	1913
	(millions of rubles)		
Total outstanding	667.1	924.1	966.6
Amount advanced to private banks and other interme- diaries	247.0	429.7	458.0

Especially interesting are the figures of advances made to commercial joint-stock banks: from 208.7 million rubles in 1911 they increased to 386.4 millions in 1913. The corresponding figures for small-credit establishments were 18.8 millions and 45.2 million rubles. It thus appears that between 1911 and 1913 the direct loan and discount business of the State Bank, as indicated by the sums outstanding, increased by about 21 per cent from 420.1 million rubles to 508.6 million rubles, while the business done through intermediaries increased by nearly 90 per cent, from 247.0 to 458.0 million rubles. The State Bank was rapidly developing into an institution whose special rôle was to afford assistance to private credit establishments, a real "bankers' bank." It had consequently a heavy burden of responsibility to bear when the outbreak of the War brought profound perturbation to the money market.

Still more characteristic of this branch of the State Bank's work are the following figures:¹²

Annual amount of loans granted and bills discounted.

	1910	1911	1912	1913
	(millions of rubles)			
Account private banks	1,930.6	3,209.6	3,533.5	4,530.5
Account institutions for small-credit	36.9	50.0	96.4	153.4
Account direct transactions	1,050.2	1,248.9	1,326.1	1,448.2

These figures show that in 1913 the total amount of loan and discount business done by the State Bank through private banks was three times as large as that done directly for its customers. The State Bank supported the money market principally by opening *credit accounts* against stock exchange securities; these amounted

¹¹ *Compte Rendu* of the State Bank for 1914, pp. 17 *sqq.*

¹² *Ibid.*, p. 16.

to over 3,800 million rubles in 1913. Such advances were usually made for short terms—under three months on an average.¹³

About one-half (49.6 per cent in 1913) of all the loan and discount business was done in the two capitals—Petrograd and Moscow. It was through the capitals that the industrial centers obtained the credit necessary for their work. A considerable amount of this business was also done in the black-soil area, in the Polish provinces on the Vistula, and in the south of Russia.

In studying the conditions of the Russian money market, it is necessary also to take into account the movement of the cash balances of the Treasury. The Russian Government imposed a heavy burden on the taxpayer; but by keeping the Treasury's available cash balances free of interest with the State Bank, it enabled the Bank to make temporary use within certain limits of the money thus accumulated for the economic development of the country. In addition to the Treasury account, the Bank also held special funds, belonging to various institutions, judicial deposits, and so forth.

Average balances of various accounts at the end of the years:

	1910	1911	1912	1913
		(millions of rubles)		
Current account of the Treasury	244.2	438.8	475.5	517.6
Special funds and other accounts	257.3	285.3	311.6	327.8

Average number of days the sums were kept with the Bank.

	1910	1911	1912	1913
Current account of the Treasury	38	66	63	70
Special funds and other accounts	156	140	138	162

The fact that these accounts, especially that of the Treasury, represented considerable sums of money, was of great assistance to the Bank in its work. At the same time, it involved the danger that the resources of the Bank might be greatly reduced should these balances be suddenly withdrawn in an emergency.

It was a characteristic of the Russian money market that the general conditions of the national economy tended to produce a particularly strong demand for money in the autumn, when the crops

¹³ Fifty-six days in 1910, 53 days in 1911, 55 days in 1912, and 55 days in 1913; credit accounts on bills were the shortest and worked out at an average of only 19 days in 1913.

were moved. The volume of loans and discounts by the State and private banks always reached its maximum in the December quarter. At the end of December the pressure was maintained owing to the Christmas holidays; a decline set in later, the minimum being reached in July.

The table given below showing the monthly totals of loans and discounts by the State Bank for three consecutive years illustrates this point.

	1911	1912 (millions of rubles)	1913
January	667.1	924.1	966.6
February	658.2	857.3	935.6
March	623.6	829.2	952.9
April	580.2	774.2	916.6
May	564.6	718.3	869.5
June	588.7	700.2	916.7
July	576.9	690.8	876.2
August	599.5	603.8	836.7
September	667.5	676.1	979.6
October	795.4	797.2	1,093.8
November	843.5	797.2	1,038.0
December	887.3	886.3	1,046.6

The note issue of the State Bank also invariably reached a maximum in the autumn, declining at the close of the year and falling to a minimum during June and July. A clear idea of the seasonal variations in the issue of notes is given by the attached chart (see Appendix I) and by the following table:

Total amount of notes in circulation.

	1911	1912 (millions of rubles)	1913
On the 1st of:			
January	1,234.5	1,326.5	1,494.8
February	1,225.1	1,322.2	1,472.9
March	1,215.1	1,318.6	1,487.5
April	1,198.8	1,313.0	1,474.0
May	1,196.5	1,309.7	1,464.8
June	1,212.9	1,307.0	1,472.1
July	1,199.5	1,302.0	1,469.2
August	1,206.8	1,300.0	1,471.5
September	1,316.0	1,408.1	1,571.5
October	1,377.2	1,542.2	1,710.9
November	1,386.4	1,533.1	1,705.6
December	1,347.4	1,502.2	1,683.3

The same seasonal fluctuations were evident in the loan and discount transactions of the private banks; to save space, their monthly balances for the year 1913 are combined in the table given below.

Combined balances of loans and discounts by private banks on the 1st of the months:

	(millions of rubles)		(millions of rubles)
January	3,759.1	July	3,914.5
February	3,743.9	August	3,938.4
March	3,802.3	September	3,993.9
April	3,808.8	October	4,068.0
May	3,811.6	November	4,096.6
June	3,879.3	December	4,112.2

This completes our survey of the Russian money market before the War. In this connection, it should again be emphasized that the years that followed the revolutionary upheaval of 1905-1906 were for the Russian money market a period of steady development and increasing strength. According to official figures, the total amount of stocks, mortgage bonds, and currency held in Russia on 1st January 1904 was 11,300 million rubles, while by 1913 this had grown to 19,000 millions. During this period, the amount of stocks held rose from 8,300 million rubles to 13,300 millions, or by 60 per cent; that of mortgage bonds from 1,200 to 1,900 million rubles, or by 58 per cent; while the holdings of currency increased from 1,800 to 3,800 million rubles, or by 111 per cent. The increase in currency holdings is here reduced by 1,049 million rubles, representing advances by the banks against securities deposited with them and for the purchase of stocks. There was an aggregate increase of about 2,000 million rubles obtained by the banks and insurance companies from sources other than the issue of securities. The aggregate circulation of bonds issued by land mortgage banks reached a total of 5,021 million rubles in 1913, including bonds of the two State Land Banks to the value of 2,065 million rubles, and bonds of joint-stock banks and mutual credit establishments to the value of 2,956 million rubles.

It is clear that an aggregate money capital of some 19,000 million rubles in a country of 160-170 million inhabitants could by no means be considered sufficient: a further influx of foreign capital was urgently needed if the country's economic resources were to be ade-

quately developed. It was also a matter of vital importance for Russia's economic progress that her national money market should be developed and strengthened. The conclusion is obvious. A long period of peace and security would have greatly benefited the country, for its productive powers had only recently come under the influence of a modern capitalistic régime. The dramatic crisis of 1914 imposed a heavy strain on Russia's immature money market by forcing it to meet the requirements of an unprecedented war.

7.

One element in the Russian currency system deserves special mention: the so-called *Treasury bonds* (*Bileti Gosudarstvennago Kaznacheystva*). These constituted a kind of short-term (4 or 8 year) government loan, and had much in common with the Treasury bonds of other countries, but differed from them in that the law conferred on the Russian bonds certain of the characteristics of currency notes. Indeed during certain periods of Russian financial history, they played an important part as an addition to the note circulation. They should be clearly distinguished from *short-term Treasury bills*, which strictly corresponded to the Treasury bills of other countries.

Russian Treasury bonds were originally issued in 1831, when an epidemic of cholera and a failure of crops caused a reduction of revenue and consequent financial difficulties. The Imperial Manifesto of the 13th July 1831, described the bonds as "a means of accelerating the collection of the State revenues." The bonds were interest-bearing securities, but as they were accepted at their face value by the Government for almost all payments, they were never quoted on the Stock Exchange. The original Treasury bonds were issued in one denomination only, equivalent to 250 ruble notes, bearing interest at 4.32 per cent; but after Count Kankrin's currency reform, in 1839, they were also issued in terms of silver rubles. When, in 1840, Treasury bonds were first issued in terms of silver rubles, their purpose was thus described: "to increase the amount of convenient currency in circulation and to assist the operations of the Treasury." The issues were made in series, and the bonds were in consequence popularly known as *series*. Their peculiar character as currency notes was determined by article 158, section II, of the Credit Statute in the following words: "Treasury bonds are ac-

cepted by the Treasury and the State Bank for all payments at their face value; and as security for the due execution of government orders or deliveries, and for all other government contracts, on the same basis as cash." The only restriction on their acceptance as legal tender was imposed by article 160, which provided that this was limited to cases where the amount to be paid was not less than the value of the bonds tendered including accrued interest; in other words, neither the Treasury nor the State Bank would convert or change Treasury bonds into cash. This restriction, and the fact that the bonds were issued in the relatively high denominations of 50 and 100 rubles, and that they bore interest, naturally tended to limit their circulation mainly to commercial circles, where they were formerly used as a substitute for cheques. At the same time, however, they certainly formed a latent addition to the stock of notes in circulation, and during the period of inconvertible paper money, they were to a certain extent in active competition with the latter. Since they were not covered by any reserve of metal, their value was entirely dependent on the security offered by the current revenue of the Treasury. Count Witte did not fail to realize the dangers involved in this peculiar form of floating debt and did his best to reduce the liabilities incurred by the issue of these bonds. With a view to redeeming them and funding this liability, he raised several long-term loans; he also reduced the rate of interest from 4.32 per cent to 3.6 per cent and ultimately to 3 per cent. By these measures, the amount of bonds in circulation, which had reached 240 million rubles in 1890, was gradually reduced to 100 million rubles. This improvement was checked by the Japanese War: on 30th July 1904, the Minister of Finance was directed to issue, at his own discretion, Treasury bonds bearing interest at the rate of 3.6 per cent to the total amount of 150 million rubles. These were disposed of, though with considerable difficulty, through private joint-stock banks.

After the Japanese War and the revolutionary upheaval of 1905-1906, Count Kokovzov, in his efforts to restore the finances of Russia to order, took steps to reduce the amount of Treasury bonds in circulation. On the eve of the Great War, however, there were still bonds to the value of 150 million rubles outstanding; and the issue of further bonds was one of the expedients to which the Treasury had recourse in its efforts to meet the emergency expenditure entailed by the War.

Since the introduction into Russia of the gold standard, therefore, Treasury bonds, being in effect inconvertible interest-bearing notes, issued by the Treasury as distinguished from the State Bank, have formed a direct addition to the currency; under a régime of inconvertible paper money they were a latent addition to the note circulation; an addition which, if it became considerable, was bound ultimately to contribute to their depreciation.

8.

Before proceeding to describe the effects of the War on the Russian currency system, it is necessary to take a general survey of the condition, both of the currency and of the Russian money market, on the eve of the great tragedy. The gold standard had acquired considerable stability. The issue of State bank notes, which did not unfortunately possess all the essential characteristics of bank notes proper, was almost fully covered by the gold reserve in the vaults of the State Bank; while, if the Bank's gold balances abroad be included, the total reserve exceeded the amount of notes in circulation.

On 16th July 1914, the position was as follows:

	(millions of rubles)
Amount of notes in circulation	1,633.4 ¹⁴
Gold reserve of the State Bank, at home	1,603.6
Gold held by the Bank abroad and foreign drafts	140.7
	<hr/>
Total amount of gold at the disposal of the State Bank	1,744.3

The notes were already legal tender for any amount, and their acceptance would automatically become compulsory on the suspension of convertibility. The problem of the concentration in the vaults of the State Bank of the available stock of gold had already been solved in a considerable measure, since the actual currency of the country was mainly composed of notes. This result was considerably assisted by a large issue of notes of small denominations—an expedient to which Germany, for instance, had recourse only a short time before the War, when effecting the concentration of her stock of gold.

¹⁴ As to the exchange value of the ruble *see* Appendices II. III, and IV.

The distribution of the total issue of notes on 1st January 1914, by denominations, was as follows:

<i>Denominations</i> (in rubles)	<i>Per cent</i>	<i>Denominations</i> (in rubles)	<i>Per cent</i>
500	4.9	10	17.9
100	28.6	5	16.3
50	0.8	3	13.8
25	17.5	1	0.2

If the percentages of notes of small denominations, including 10 rubles, be added together, it will be seen that they represented 48.2 per cent of the total issue. This state of affairs naturally resulted in a certain "limping" of the Russian currency on the side of notes, small notes always tending to continue in circulation. This fact obviously facilitated the concentration of the stock of gold—indeed it placed several hundred million gold rubles at the disposal of the Government; but it made it difficult for the Government to put into circulation the number of new small notes required to replace the coins withdrawn, without causing a marked depreciation of the currency. The total amount of gold in the hands of the public was not large; on the 1st July 1914, for instance, it was computed at 463.7 million rubles, although it is probable that part of this sum had already left the country. In any case, even had it proved possible to withdraw the whole of the gold from circulation, this measure could not well have increased the gold reserve to any considerable extent.

The total amount of silver coinage of full metallic value (1 ruble, 50 copeck, and 25 copeck pieces) in circulation on the 1st July 1914, was estimated at 119.9 million rubles; that of token silver coins (20, 15, 10, and 5 copeck pieces), at 119.8 million rubles; while the copper coinage (5, 3, 2, 1, $\frac{1}{2}$, and $\frac{1}{4}$ copeck pieces) accounted for 18.9 million rubles. The metallic component of the currency thus represented an aggregate value of about 700 million rubles, of which one-third consisted of coins other than gold. Over two-thirds of the total currency in circulation on the 1st January 1914 consisted of notes; these with the subsidiary coinage formed nearly four-fifths of the whole.

During the few years immediately preceding the War, the volume of currency in circulation was rapidly increasing: from a total of 1,867.2 million rubles on the 1st January 1910, it rose to 2,402.8

millions on the 1st January 1914, while at the same time there was a steady decrease in the circulation of gold.

During the three years preceding the War, and especially in 1913, the balance of indebtedness was generally adverse to Russia, owing to the decrease in the excess of exports over imports; in 1913, as mentioned above, the margin in favor of Russia was only 146 million rubles.

On the eve of the War, on the 16th July 1914, the official rate of discount for 3 months' bills stood at 6 per cent; for longer terms it was as high as 8 per cent. The outstanding loans and discounts of the State Bank amounted to 777 million rubles; while deposits and current accounts reached 1,150.5 million rubles, including the Treasury account of 514.4 million rubles. The note issue of the Bank was 411 million rubles below the legal maximum. The combined balance sheets of private banks on the 1st July 1914, showed the following position: their aggregate deposits and current accounts amounted to 3,591.3 million rubles; other liabilities to 3,386.2 million rubles; loans and discounts to 4,276.2 million rubles; rediscounts of bills and repledging of securities to 515.5 million rubles. Both the currency system and the money market were just preparing to meet the usual pressure of the autumn months.

CHAPTER II

CHANGES IN THE CURRENCY SYSTEM CAUSED BY THE WAR

1.

THE interval between the Austro-Hungarian ultimatum to Serbia and the German declaration of war on Russia was so short, and the whole catastrophe so unexpected, that it was impossible to make adequate preparations to meet the storm. In the few days available, the Ministry of Finance succeeded in withdrawing from German banks the greater part of the balances which they held on account of the Treasury and the State Bank. The major portion of Russian government funds abroad, however, was held by various banks in France, and by Messrs. Baring Brothers in London. The exact total of these balances (with the exception of 140 million rubles of gold belonging to the State Bank) cannot at present be ascertained; the foreign Governments concerned have not yet published any information on the subject, while the records of the Credit Office were destroyed when the Bolsheviks removed the central government departments from Petrograd to Moscow. According to the late M. Rafalovitch, Representative of the Ministry of Finance in France,¹ the Russian government balances in Paris at that time represented a considerable sum. Besides government funds in the strict sense of the term, they included several hundred million francs credited to the Treasury account from the proceeds of the sale of the bonds of a joint loan raised by the railway companies; for, in accordance with established practice, the Government itself collected all monies in foreign currencies and added them to its own account, crediting such sums to the companies in rubles at the current rate. The Russian government balances were therefore very large for the time of year; they usually fell to a minimum at midsummer, and gradually increased during the following months, as the crops were moved. Had the Russian Government been free to dispose of these sums, it would have been better able to meet the situation. The French moratorium was, however, declared on the 1st of August, and since it applied to bank deposits,

¹ This statement is based on information contained in the secret records of the Credit Office, now at the disposal of the author.

it threatened the free disposal of the Russian Treasury's deposits. Meanwhile, the reserves of foreign currency were required for the service, in the first place, of government and guaranteed bonds. There was, naturally, no prospect of providing the necessary amount of foreign monies by the export of Russian goods. Moreover, the liabilities of Russian banks and business concerns for advances made by banking establishments in Paris amounted to about 500 million francs.

The Russian Government was obliged to take measures to meet the unfavorable balance of indebtedness. In the first place, it was essential to free the available government balances from the moratorium. Negotiations to this end between the Russian Embassy in Paris and the bankers of the Russian Treasury, resulted in a satisfactory arrangement: provided that the Bank of France would agree to rediscount their holdings of bills, the bankers consented to pay the interest on Russian bonds out of the balance standing to the credit of the Treasury.

Large establishments, such as Rothschild Brothers, the *Crédit Lyonnais* and the *Comptoir National d'Escompte* did not propose to avail themselves of the moratorium, while the suggestion made by some of the Treasury bankers to offset the Russian government balances against the liabilities of Russian private banks was strongly opposed in French financial circles. Finally, the negotiations between the two Governments resulted in the following agreement: the Bank of France undertook to rediscount bills for the Russian Treasury bankers up to the amount required for the service of the Russian government and guaranteed bonds; the actual payments on the government bonds were made by the *Crédit Lyonnais*, and on the railway debentures by the *Banque de Paris*, from the balances of the Russian government accounts. Payments were naturally made only on securities held by subjects of allied or neutral countries, on the presentation of official certificates. The Russian private banks were unable to repay the advances made to them by the French banks, and the amount of these credits remained a burden on the French money market until the matter was finally settled in 1915.

Certain other facilities were granted to the Russian Government in 1914: drafts on its foreign accounts were given in payment of orders placed abroad.

It will thus be seen that the first effect of the War on Russian finance was to isolate it completely from the outside world. This proved a heavy disability, for it prevented Russia from using her national resources to provide the necessary sums in foreign currencies and to control the rate of exchange of the ruble. Russia's principal frontier—her western border—became the principal area of military operations; the Black Sea was very soon closed to traffic and the only available routes of communication were those through the Arctic Ocean (*via* Archangel) and through the Far East. Both were extremely long and their capacity for traffic very small. Meanwhile, foreign monies were urgently needed to pay for the war material that the Government was compelled to order abroad. For various reasons, Russia had been unable to organize the production of military equipment on an adequate scale: for instance, she possessed nothing worthy of the name of a chemical industry. The extensive "militarization" or "mobilization" of industries was only begun in 1915, when it was forced on the Government by the strong public feeling aroused by the defeats in Galicia, which were attributed to lack of munitions. Meanwhile, munitions had to be obtained from the Allied countries. If the Black Sea had not been closed by Turkey, Russian exports would have provided some funds with which to meet the expenditure on war supplies obtained abroad. But, even in 1914, the balance of trade was heavily against Russia: the value of her imports in that year reached 1,098 million rubles, while her exports only amounted to 956.1 millions, an adverse balance of 141.9 million rubles. The only hope of saving the situation lay in the adoption of a skilful and effective credit policy abroad, and the attention of the Russian Ministry of Finance was soon turned in this direction.

2.

The next development brought about by the War in the Russian currency system was the temporary suspension of specie payments, State Bank notes being declared inconvertible. The same step was taken in all the belligerent countries, with the exception of Great Britain, where, however, notes became inconvertible in practice, although the Bank Act was never formally suspended. This measure was adopted in order to provide the Treasury with the means of defraying war-time expenditure, and to prevent the export of gold,

especially to enemy countries. It is highly probable that this danger would have arisen, had specie payments not been stopped.

The available cash balance of the Treasury—about 580 million rubles—was barely sufficient to meet the expenses of mobilization. Urgent war expenditure could not, in any case, have been met from taxation, even had the taxes been specially increased, owing to the delay involved in their collection. The raising of internal loans at the very outbreak of the War would hardly have been expedient; the proceeds, moreover, would not have been immediately available. The only solution of the problem, therefore, was to borrow from the State Bank. The World War proved that, under such unprecedented conditions, the principles on which central banks of issue have been organized have no influence on the part they may be called upon to play. The banks, whether private concerns on which the privilege of note issue had been conferred by their charters, or State Banks in the strict sense of the term, had all alike to assist in providing the money needed by the treasuries of their respective countries.

Such was the situation when the Act of 23rd July 1914, was promulgated; it was enacted under the terms of Article 87 of the Fundamental Laws, which empowers the Council of Ministers to adopt emergency legislation, subject to subsequent ratification by the Legislature: it was ratified by the State Duma and the State Council four days later. Its provisions were as follows:

(1) As a temporary measure during the present exceptional period, the convertibility of State credit notes into gold is suspended.

(2) The State Bank is authorized to effect an additional issue of State credit notes, provided that the legal maximum of fiduciary issue be not exceeded by more than 1,200 million rubles.

(3) The State Bank is authorized, should the balances on the government accounts with the Bank be exhausted, to provide amounts needed for meeting war-time requirements by discounting short-term Treasury bills.

No special legislation was needed to make State bank notes legal tender, since they had always been so; this was fortunate as such a measure always requires the greatest care. The position was similar in France, and Germany had effected the necessary reform a short time before the War.

The fiduciary issue of the State Bank was thus raised from 300

to 1,500 million rubles, or to 5 times its pre-war maximum. It would perhaps have been more expedient to raise the maximum at once to a higher figure, so as to avoid the necessity for subsequent measures gradually increasing the limit of total issue; on the other hand, the necessity for subsequent legislation afforded an opportunity for securing better control over expenditure, and compelled the Government to look for more regular sources of revenue, duly authorized by the legislature.

As soon as the decree suspending specie payments was issued, gold coinage naturally disappeared from circulation. In accordance with the practice of all the belligerent nations, the State Bank appealed to the public to surrender all gold coins, but the response was very unsatisfactory. Any further increase in the Bank's gold reserve during the War was entirely due to the current production of the Russian gold mines.

As far as the circulation of silver coins of full metallic value and of silver and copper token coins was concerned, the position was entirely satisfactory, except in the provinces immediately adjoining the theater of military operations. In the western provinces of the Kingdom of Poland and in Warsaw, however, the shortage of small change, unavoidable in the circumstances, assumed such proportions as to necessitate the issue of *small change notes* by municipalities, local banks, and even by organizations which had no previous connection with monetary problems. As a rule, these small change notes were issued against a reserve of government securities and only in very small denominations, that is, in copecks. Their technical quality was very poor. The monetary situation in Russia in the early weeks of the War was thus similar to that obtaining in the other belligerent countries, though the disturbance only affected certain localities and was therefore on a smaller scale; it was due to mobilization, which always caused a great demand for subsidiary coinage for the Army, and to the anxiety of the inhabitants of the districts adjoining the theater of war, who were preparing to flee and were therefore hoarding small change. The terrible trials which the whole of Russia had subsequently to face were, at this time, undreamt of.

In spite of the great increase in the note circulation during the first few months of the War there was no marked decline in the internal purchasing power of money. This was due to two causes: the

difficulty of export and the restriction of credit. The first factor had the effect of throwing on the home market a large quantity of goods which would otherwise have been exported, and thus counteracting the influence of the new purchasing power placed in the hands of the public by the Treasury. The contraction of credit tended to increase the demand for ready money. In addition to this, about 400 million rubles in notes were needed to fill the gap caused by the disappearance of gold coinage from circulation. With regard to the fall in the rate of exchange of the ruble, a decline was bound to result from Russia's isolation from the outside world; the fall was due to the adverse balance of indebtedness and not to any special characteristics of the system of inconvertible paper money introduced on the outbreak of war. Its extent may be gauged from the quotations of the London market: the par rate was 9.457 rubles to £1; the sterling rate rose to more than 10 rubles in November 1914, and occasionally reached 10.5 and even 11 rubles to £1.

In studying the circulation of the notes issued during the first few weeks of the War, it should be borne in mind that a considerable part of the issue went to private banks and to savings banks to meet the genuine demand for currency. During this period the Government was drawing on the balance of its current account with the State Bank, receiving payments in notes.

The following figures show the increase in the issue of notes during the first two months of the War:

Notes in circulation (in millions of rubles).

16th July	1,633.3	23rd August	2,517.3
23rd July	1,859.7	1st September	2,553.5
1st August	2,321.0	8th September	2,590.6
8th August	2,410.9	16th September	2,613.2
16th August	2,431.3	23rd September	2,642.6

The issue of notes increased more rapidly during the first two months of the War than during any other period of 1914. The increase in the issue during the later months of the year was as follows:

	(millions of rubles)
1st October 1914	2,697.4
1st November 1914	2,790.9
1st December 1914	2,846.0
1st January 1915	2,946.5

In six months the quantity of notes in circulation had increased by 1,313.2 million rubles, and was nearly double the figure for 16th July 1914. With regard to the gold reserve covering the notes, of which more will be said in a later chapter, this underwent little change, having decreased from 1,603.6 million rubles in July 1914 to 1,559.9 million rubles on 1st January 1915 (excluding the gold held abroad). The suspension of specie payments prevented the gold reserve from playing a direct part in fixing the value of the notes; in this respect its influence was purely psychological. The use of the gold reserve for the settlement of international accounts between Russia and foreign countries was of course quite another matter.

A characteristic feature of the first few months of the War was the incessant demand for subsidiary coinage. The continuous flow of these coins into circulation is clearly shown by the weekly returns of the State Bank, from which an extract is given below.

*Stock of silver and copper coinage at the State Bank
(millions of rubles).*

16th July 1914	72.7	23rd August 1914	57.1
23rd July 1914	68.5	1st September 1914	55.0
1st August 1914	63.1	8th September 1914	51.8
8th August 1914	60.4	16th September 1914	49.2
16th August 1914	58.6	23rd September 1914	45.8

The stock of subsidiary coinage in the State Bank reached its lowest point on 16th October, when it was reduced to 41.1 million rubles. By 1st January 1915 it had again risen to 44.9 million rubles.

We have already seen that Russia possessed a special kind of paper money in her Treasury bonds. The Government had recourse to their issue very soon after the outbreak of the War. The Ukase of 22nd August 1914 authorized the Minister of Finance to issue Treasury bonds in twelve series to the total amount of 300 million rubles, in denominations of 50 and 100 rubles; they were to bear interest at the rate of 4 per cent.

The short-term Treasury bills, by discounting which at home and abroad the Government obtained the money required for its emergency expenditure, could never be used as currency, being drawn in sums of 100,000, 500,000, and 1,000,000 rubles. Immediately after the outbreak of war, on 23rd July (5th August), 1914, the Minister of Finance was authorized to issue Treasury bills to the value of 400

million rubles in Russian currency, 400 million rubles in Russian and foreign currencies, and £12,000,000 for disposal on the London money market. The Treasury bills discounted abroad formed a floating debt of the Russian Treasury to various creditors, while in Russia, at the outset of the War, they constituted a liability of the Treasury almost exclusively to the State Bank. It was only later that a considerable quantity of such bills were discounted by private banks, and through them found their way into the hands of the investing public.

It would be a complete mistake to suppose that the Government intended to meet the whole expense of the War by the use of the printing press. As early as July 1914 a number of taxes were increased; in September and October, the Government proceeded further in this direction and also introduced certain new taxes, for instance the duties on cotton and on goods traffic. Unfortunately only a very small proportion of the proceeds of these new taxes could be devoted to military expenditure, since it was necessary first to make good the deficit caused in the "ordinary budget revenue" by the suspension of the sale of spirits and the subsequent abolition of the government Spirit Monopoly. This monopoly, in 1913, yielded a net revenue of 664.3 million rubles. It was consequently impossible for taxation to play the same part in Russia as in western Europe in meeting the expenditure involved in the prosecution of the War.

By the beginning of October 1914 it was found expedient to raise a long term internal loan of 500 million rubles. This, the first of the series of internal loans raised by the Government during the War, was known as the "5 per cent Domestic Loan of 1914."

3.

The outbreak of the War was so sudden that a violent disturbance of the money market might have been expected. There was, however, but little panic. This comparative stability was probably due to the fact that conditions at the moment were relatively easy, since the market was merely preparing to meet the normal pressure of the autumn months.

The stock exchanges were closed, but conditions in Russia did not render necessary the declaration of a general *moratorium*; indeed, immediately after the declaration of war, a decree was issued concerning powers of postponing the noting of bills. In the Polish

provinces, however, which became the actual field of military operations, a four months' moratorium was declared, and this was renewed for varying terms. The moratorium applied to all deposit and current accounts in banks, in excess of 100 rubles. Only 5 per cent of the balance outstanding could be claimed, and in any case not more than 500 rubles per month. In respect of mortgages, the moratorium was extended to one year; it did not apply to the payment of rent for houses and apartments nor to wages, so that sums required for the conduct of business could be drawn from banking accounts.

The moratorium was extended, in a more or less comprehensive form, to the various provinces involved in military operations, as circumstances required. These local moratoria certainly influenced the Russian money market as a whole, since all the provinces of Russia formed part of a single credit organization; but the exact extent of this influence cannot be ascertained.

The State Bank was called upon to play a part of great importance and responsibility, since upon it devolved the duty of supporting the entire network of private banks during the crisis. Had the State Bank raised its discount rate at this juncture, the measure would undoubtedly have depressed the market; the Bank therefore only raised the rate by $\frac{1}{2}$ per cent. On 16th July the rate was finally fixed at 6 per cent; it subsequently remained unchanged throughout the War, as did the bank rate, generally speaking, in the countries of western Europe.

The most characteristic manifestation of the crisis was the run on private banks, which caused the withdrawal of considerable sums from both deposit and current accounts. Simultaneously there was a large increase in the deposit and current accounts of the State Bank, a fact which proves that, in many instances, money was withdrawn merely to be transferred to an establishment inspiring greater confidence in the public. The following table shows the changes that actually took place:

Deposits and current accounts.²

	<i>1st July 1914</i>	<i>1st September 1914</i>
	(millions of rubles)	
Private banks	3,591.3	3,305.0
State Bank (exclusive of the current account of the Treasury)	193.6	387.4

² These and the subsequent figures are taken from the balance sheets of the establishments concerned.

These figures show a decrease of 286.3 million rubles in the deposit and current accounts in private banks and an increase of 193.6 million in those of the State Bank during this period.

The State Bank was called upon to support the private banks in an increasing measure. The combined balance sheets of all the private banks show the extent to which the business of rediscount and advances on securities had developed. On 1st July 1914, these transactions represented a total of 515.5 million rubles; on 1st August they reached 881.2 million rubles, and on 1st September 855.9 million rubles. The loans and discounts of the State Bank, outstanding on 1st July 1914 amounted to 774.2 million rubles, while on 1st August they reached 1,202.2 million rubles. It may safely be assumed that the whole of this increase represented facilities accorded by the State Bank to private credit establishments. Thanks to the powerful support that they received from the central bank of issue, the private banks were able to strengthen their position and to adapt their organization to war-time requirements.

We have already seen that down to 1st January 1915 no excessive increase in the note issue was required to meet the war expenditure. According to the figures of the Ministry of Finance, the total expenditure on the War in 1914 amounted to 1,657.9 million rubles,³ while 657 million rubles of short-term Treasury bills were lodged with the State Bank by 1st January 1915. The discounting of Treasury bills enabled the Government to make use of the note issue for fiscal purposes; strictly speaking, this was the only expedient employed to force notes into circulation in excess of the genuine demand for currency. If we deduct the 657 million rubles of Treasury bills from the figure of 1,313.2 million rubles, which represents the total increase in the note circulation, we shall see that approximately one-half of the increase was due to the market's actual demand for currency.

These observations will serve to show that the first five months of the War produced no really serious disturbances in the Russian currency system.

³ *Proekt Gosudarstvennoi Rospisi Dokhodov i Raskhodov na 1917 god* (*Draft Estimates of Revenue and Expenditure for 1917*), Petrograd, 1916, p. 6.

4.

As the War proceeded, difficulties increased. It has been shown in the foregoing pages that there was no hope of meeting any considerable part of the war expenditure by taxation, since any increase in taxation was absorbed in making good the deficit caused by the abolition of the Spirit Monopoly, formerly one of the principal sources of revenue of the "ordinary" budget. It is true that the distinction between the "ordinary" and the "war" budgets was largely artificial, for the "ordinary" budget comprised, besides a section entitled "extraordinary revenue and expenditure," a number of receipts and expenses entirely due to the War—for instance the increased interest payable on government loans, and the proceeds of various taxes and duties specifically imposed for the duration of the War.⁴ In so far, therefore, as the "ordinary" budget met out of ordinary revenue expenses directly due to the War, it may be said that the cost of the War was met, but only to a very limited extent, by taxation. The survey given above of general conditions in Russia makes it clear that the War had to be financed almost entirely by borrowing at home and abroad and by the issue of paper money. The ideal course under such conditions would have been to arrange that the excess of notes issued should be constantly withdrawn from circulation by the flotation of internal loans; in no country, however, has this ideal course proved practicable, and Russia was certainly very far from being able to attain it. This policy could have been adopted only if the whole of the notes issued had remained in a "visible" state—*i.e.*, held on current account in the banks—none being hoarded, as in fact they were by the Russian peasants. In that case, it would have been comparatively easy to withdraw the excess of notes from circulation in exchange for government bonds and to repeat this operation whenever the money raised had been expended by the Treasury. The increase of notes in circulation would then not have been excessive. This state of affairs would not indeed have prevented the War from impoverishing the population, for the Government would still have been in possession of increased purchasing power, and would have used it to acquire an ever increasing share of the commodities and services offered in the market. It would, however, have obviated, in a large measure, the disorganization of the currency, and the public would

⁴ See monograph by A. M. Michelson, Chapter II.

have escaped that "most inequitable form of taxation"—the excessive issue of notes. The rise in prices would then have been due to the diminution of the available stock of goods rather than to the inflation of the currency.

Whenever, owing to its own incompetence or to adverse circumstances, a government is unable to use the excess of notes put into circulation as a source of credit, inflation with all its attendant evils is bound to occur. This aspect of the situation will be dealt with in detail in the following chapter. Meanwhile, it is only necessary to mention that in Russia the feverish economic activity which generally accompanies inflation was made the occasion of a thorough reorganization of the country's whole economic system, with a view to adapting it to the needs of warfare. This reorganization, in its turn, necessitated the issue of many hundreds of millions of rubles in notes. The increased output of the militarized industries of Russia was almost entirely confined to war materials; the result of this industrial mobilization was therefore economically unproductive, and the notes issued to finance it were bound ultimately to contribute to the depreciation of the currency.

The total war expenditure down to 1st August 1916 amounted to 17,724.6 million rubles. "In the course of the same period," says the Explanatory Memorandum of the Minister of Finance to the Draft Estimates for 1917, "it has proved possible to raise in the internal market government loans to the amount of about 8,000 million rubles, including short-term Treasury bills disposed of in the open market; of this sum 2,882 millions were raised during the first year of the War and over 5,000 millions during the second."⁵ The greater part of this money was spent within the Empire. The expenditure on account of loans raised abroad during the same period reached about 4,400 million rubles. A consideration of these figures will show that the Government had to provide at least 5,000 million rubles by the issue of notes; and this estimate is confirmed by the returns of the State Bank published about the same date. It was consequently necessary to raise the legal limit of the fiduciary issue of the State Bank at frequent intervals; and the evil effects of currency inflation on the economic system of the country became ever more pronounced.

For the sake of convenience and clearness, the War will here be

⁵ *Draft Estimates for 1917*, p. 52; see p. 376, n. 3, of this volume.

divided into two periods of unequal length: that from the outbreak of the War to the Revolution of February 1917—the period of the Imperial Government—and that from March 1917 to the Bolshevik Revolution in October of the same year. After the 25th October 1917 the disintegration of Russia proceeded very rapidly, military operations practically ceased, and the former government departments continued to work for a time only from force of habit.

Under the Imperial Government, the inflation of the currency proceeded comparatively slowly, but the recklessness of the Provisional Government in using the issue of notes as a source of revenue, may be judged from the table below:

Notes in circulation.

	<i>Amount, in millions of rubles</i>	<i>Percentage as com- pared with the preceding date</i>
16th July 1914	1,633.3	
1st January 1915	2,946.5	about 190 per cent
1st January 1916	5,617.0	over 190 per cent
1st January 1917	9,097.3	about 180 per cent
1st March 1917	9,949.6	over 109 per cent
23rd October 1917 (last return of the State Bank)	18,917.0	about 200 per cent in 8 months

It may be seen from these figures that the Provisional Government was forced to issue almost as large an amount of notes during the *eight months* of its existence as the Imperial Government did during more than *thirty months* from the outbreak of the War. There are two manifest reasons for this: in the first place, as inflation progressed and the purchasing power of money declined, a larger issue of notes was required to achieve a given financial effect. Secondly, the Revolution completely disorganized the economic life of the country and greatly diminished the resources of the Russian money market; it consequently became impossible to raise internal loans on the former scale. Moreover, the Revolution involved the country in enormous new expenditure. A comparison of the following figures will elucidate the situation.

Average monthly issue of notes, in millions of rubles.

From the outbreak of the War to 1st January 1915	310.4
In 1915	216.0
In 1916	289.5
In 1917, before the March Revolution	426.0
In 1917, under the Provisional Government	1,083.0

In the course of this period the legal limit of the fiduciary issue of the State Bank was raised ten times (the legal limit was fixed, before the War, at 300 million rubles). The amount of increase over each previous limit is shown in the following table:

	(millions of rubles)
23rd July 1914	1,200
17th March 1915	1,000
22nd August 1915	1,000
29th August 1916	2,000
27th December 1916	1,000
4th March 1917	2,000
15th May 1917	2,000
11th July 1917	2,000
7th September 1917	2,000
6th October 1917	2,000

The aggregate increase thus reached 16,200 million rubles, bringing the legal limit of fiduciary issue to 16,500 million rubles.

In addition to the increase in the fiduciary issue of the State Bank, the powers conferred on the Minister of Finance for the issue of Treasury bills, by discounting which the Bank provided the Government with the necessary ready money, were also periodically extended. The private money market was also gradually adapting itself to dispose of Treasury bills, especially when the Government found it possible to render them more convenient for the private investor, by reducing the amounts in which they could be drawn and by modifying their dates of maturity to suit the market. Thus, on 14th August 1915, the Minister of Finance was authorized to issue short-term Treasury bills not only in denominations of 100,000, 500,000, and 1 million rubles, for 6 months, as before, but also in denominations of 50,000, 25,000, 10,000, and 5,000 rubles, falling due in 3, 6, 9, or 12 months.

The following figures show the extent to which Treasury bills were

disposed of in the private money market and discounted by the State Bank: on 10th July 1917 the Treasury bills held by the State Bank amounted to over 10,000 million rubles, while those held by other creditors reached 3,800 million.

Generally speaking, after the middle of 1915, every enactment extending the powers of the Minister of Finance to issue short-term Treasury bills fixed a limit to the total amount of such bills outstanding "at any given moment." Circumstances compelled the Government continually to raise these limits, and it is therefore unnecessary to recapitulate the whole series of these enactments.

In addition to loans, Treasury bonds were issued to the value of 850 million rubles. This total includes three separate issues, amounting to 300 million, 300 million, and 250 million rubles respectively, made in virtue of the laws of 22nd August 1914, 27th March 1915, and 14th August 1915. We have already seen that these bonds were used, to a certain extent, as a substitute for notes.

Finally, commercial banks and private investors held short-term Treasury bills to the amount of 3,771.5 million rubles.

5.

During the second half of 1915, an extreme shortage of subsidiary coinage developed in the two capitals and in many other districts of European Russia. The cause of the shortage was in a large measure psychological, the populace having been greatly affected by the heavy reverses suffered by the Army in the summer of 1915. Not only did the provinces in the immediate vicinity of the front appear to be threatened with invasion, but there was a growing fear that Petrograd itself might be endangered. Public confidence in notes was therefore considerably shaken. Faced with the menace of being compelled to flee from the invading enemy, and having lost confidence in paper money, the public began to hoard coin. This tendency at first applied only to silver coins of full metallic value, but gradually spread to token silver and copper. As will be indicated later, the paper rubles had by this time considerably depreciated in terms of gold, and there was a marked rise in the price of commodities. Consequently it was only natural that people should hoard the 900 per mille fine silver coins, since their intrinsic value was almost equal to the current value of the paper ruble; the hoarding of token silver and copper coins

cannot be explained in the same way; it was due to a kind of psychological aberration. The Government, anticipating a rise in the demand for subsidiary coinage, had increased the issue from the Mint in 1914 and 1915, as shown below:

Issue of subsidiary coinage from the Mint.

	<i>Silver coins of full metallic value</i>	<i>Silver token coins (in thousands of rubles)</i>	<i>Copper coins</i>
1913	....	8,675	....
1914	1,100	14,950	1,420
1915	....	37,500	1,631

The Mint was, however, unable to keep abreast of the demand for subsidiary coinage, for the total amount of currency in circulation had greatly increased, and the relation between coined money and notes of various denominations had been altered. The weakening of the country's credit system created a demand for more ready money for business transactions. There was, however, no reason to fear a catastrophic shortage of subsidiary coinage. The panic was thought to be due in part to the activities of agents of the German General Staff, who aimed at disorganizing their enemies' social and economic life. It would, however, be difficult to ascertain the extent of these efforts, and how much truth there was in the rumored purchase of Russian copper coins by German agents, who were said to smuggle them through Finland and Sweden.

The panic spread almost instantaneously, with the result that by August 1915 subsidiary coinage had completely disappeared from circulation in Petrograd and in many other localities. The public were, it is true, in possession of a considerable stock of subsidiary coinage, but no one was prepared to part with his hoard. Retail traders, restaurants, and tramways were severely affected by this shortage. There was a continual run on the banks and the local Treasury offices, but the supplies of coin thus obtained were immediately hoarded. The general confusion was so great that neither the public nor the establishments concerned were able to find a speedy way out of the difficulty by allowing credit to each other or, for instance, by selling books of tramway tickets. The latter system was, however, introduced later on the tramways.

As usually happens in such circumstances, wholesale accusations

of profiteering were made. Articles appeared in the Press, urging the Government to impose heavy penalties for the accumulation and hoarding of coins. The Government was fortunately wise enough not to enter on this path, which would in any case have led to no useful result; it did, instead, everything in its power to meet the demand for subsidiary coinage by increasing the output of the Mint and by the issue of substitutes, capable of replacing metallic money to a certain extent. It was decided to issue special small change Treasury notes and, pending their manufacture, to make use of the blocks of postage stamps which had been engraved to celebrate the tercentenary of the Romanov Dynasty. The stamps were printed on stronger paper and were provided with the necessary inscription on the back. These small change stamps were certainly unsatisfactory: they were too small, too easily soiled, and very inconvenient to handle. Undoubtedly their appearance, and the bad impression which they produced on the public, contributed psychologically to the further depreciation of the ruble. There was, however, no alternative, and the measure was introduced by an "order of the Minister of Finance submitted to the Senate." Extracts are given below from the principal clauses of this document, which finally banished metallic money from European Russia and transformed her currency into one consisting exclusively of paper, although Siberia suffered no shortage of small change, and silver coinage remained in circulation there. The order runs as follows:

"The Ministry of Finance, considering the inconvenience caused to the public by the shortage of subsidiary coinage and the impossibility of the Mint immediately providing the necessary supply of coins, has, in accordance with the special decision of the Council of Ministers dated September 25/October 7th, 1915, and pending the preparation by the Mint of sufficient coins, ordered the issue of small change stamps, in accordance with the following principles:

- (1) Small change stamps shall circulate on the same basis as token silver and copper coins.
- (2) Their design will be that of the Romanov Jubilee postage stamps.
- (3) They shall be legal tender between private individuals to the amount of three rubles for each transaction. They will be accepted by government Departments and public institu-

tions to any amount, except in payment of customs duties, for which purpose they shall be subject to the limitations imposed on the acceptance of token silver and copper coinage.

- (4) Small change stamps shall not be accepted if the design on them is indistinguishable, or if the portion of the stamp remaining is less than $\frac{3}{4}$ of the whole.
- (5) On the issue of a sufficient supply of small coinage, the stamps will be withdrawn.
- (6) This order shall come into force immediately after its receipt by telegraph.

Although it was proposed in 1916 to strike a total of 40,500,000 rubles of token silver and 4,550,000 rubles of copper coins, and in 1917 34,000,000 rubles worth of silver and 8,300,000 rubles worth of copper, the coins never came into circulation, except in a few districts and by their issue to the Russian troops in Persia. Instead, the law of 13th November 1915 provided for the issue of small change Treasury notes, printed on specially manufactured paper, in denominations of 1, 2, 3, 5, 10, 15, 20, and 50 copecks. These notes were subject to the provisions of the Monetary Law applicable to silver and copper coins of corresponding denominations. The Government intended to withdraw the small change stamps from circulation, in exchange for these Treasury notes, but this intention was never carried out; consequently the Treasury notes, issued in all denominations except 20, 15, and 10 copecks came into circulation alongside of the small change stamps.

Both notes and stamps were issued by the Treasury. No reserve was held against the notes, and their circulation was entirely dependent on the fact that they were accepted by the Government in payment of sums due to it and that the total amount in circulation was limited by the relevant articles of the Monetary Law. They were issued to the public through the State Bank, to which all the Treasury notes and small change stamps printed by the State Printing Office were directly consigned.

Once these measures had been carried out, there was always a sufficiency of subsidiary paper in circulation, and the tills of the State Bank were always well stocked with small change of every description—token coins, stamps, and Treasury notes; so that

whereas on 1st January 1916 the Bank held only 29.3 million rubles of subsidiary currency, by 1st January 1917 this amount had increased to 118.1 million rubles and by 16th October 1917 to 176.4 million. About this time, however, an acute shortage of small bank notes began to make itself felt, for, owing to the general rise in the cost of living, the public required more ready money for daily expenditure. The same difficulty occurred in varying degrees and in different forms in all the belligerent countries. The only blame attaching to the Russian Government in this connection is that it failed to foresee these difficulties and to forestall them, either by preparing in advance a sufficient supply of light token coinage, or by printing in good time a stock of good small change notes. Later, as the War continued and the expenses of its prosecution increased, it should have been realized that the State Printing Office, where the State bank notes were printed, needed extension and additional equipment to enable it to develop the output of notes, especially of small denominations. Measures for this purpose had, indeed, been taken, but on a wholly inadequate scale; with the result that the Provisional Government inherited an equipment quite insufficient to cope with the enormous demands made upon it. This fact explains the deterioration of the established standard of Russian notes during the period of the Provisional Government; new types of paper money were issued, and orders for printing notes were placed abroad. It was only natural that the appearance in circulation of new notes, technically inferior to earlier issues, should affect the confidence in which the paper ruble was held by the public. Faced with exceptional financial difficulties, with an all-round rise in prices and, especially, with the extravagant increase in wages, the Provisional Government was soon compelled to resort to printing notes of an unusual type. The order of the Provisional Government, dated 26th April 1917 provided for the issue, in addition to existing denominations, of State bank notes of a face value of 1,000 rubles. These notes bore a device representing the State Duma and hence became popularly known as "Duma" notes, as distinguished from former issues known by various names such as "Tsar," "Romanov," or "Nicholas" notes. The issue of notes of such a high face value enabled the Government to meet the growing demand for currency; at the same time, however, it emphasized the depreciation of the ruble and created new difficulties in transac-

tions involving small sums. Complaints were now heard not of the shortage of small change, but of the insufficient supply of bank notes of small denominations. The State Printing Office was overwhelmed with orders, while the cost of printing notes steadily rose, owing to the insistent demands for higher wages of the employees of the Office, who were compelled to join in the general outcry for increased wages.

One of the first measures of the Provisional Government was the flotation of the Liberty Loan. The general conditions described above, however, somewhat imperilled the prospects of the loan. The free cash balances of most firms were absorbed by the demand for higher wages and by the general rise in the cost of production; and business undertakings were themselves compelled to seek credit, partly in advances from the State Bank and partly in overdrafts covered by Stock Exchange securities. The very high rate of income tax—which had by this time been considerably increased—and of the emergency levy, as well as the excess profits tax introduced by M. Shingarev, Minister of Finance, were important in theory, but ineffectual in practice. The new laws, hurriedly passed to allay the outcry of the populace against “capitalists,” were more in the nature of general pronouncements than of legislative acts; they were badly constructed and needed many technical improvements which were only made at a later date. Meanwhile, these laws, introduced at a time when business firms found themselves in an extremely difficult position, owing to the disorganization of production and the extravagant claims of the workers, far from becoming a constructive factor in the life of the State, only emphasized the growing social antagonisms. It became clear that the Imperial Government had failed to make full use of taxation, or even to pave the way for the eventual exercise of stronger pressure on the taxpayer. Economic considerations also rendered it advisable to increase the existing indirect taxation and to impose new indirect taxes. These measures, however, were only attempted by the last Cabinet of the Provisional Government, and proved to have been too long delayed. A Special Committee for the Reduction of Government Expenditure was appointed on 22nd August 1917, but even this measure failed to check the rising torrent.

However good the intentions of the Provisional Government, it had no alternative but to print still more notes, a measure bound ulti-

mately to reduce Russia to bankruptcy. Circumstances arising out of the War and the internal political situation forced the Government to act hastily and to resort to measures which were technically inadequate. By the end of August 1917 it became clear to the Government that a great financial and monetary catastrophe was bound to occur in about a month's time, for the receipts of the Treasury and the output of the printing press were together insufficient to keep abreast of the increasing expenditure. The very possibility of continuing to prosecute the War was in the balance. The impending catastrophe would strengthen the hands of the Bolsheviki, who had quickly recovered after the defeat of their rising in July. This extremely critical situation demanded immediate and drastic remedies. The present writer, at that time Minister of Finance, decided to place an order abroad without delay for a sufficient supply of new notes, and pending their delivery, to issue temporary notes of a design that could be easily printed at short notice and in large quantities. The order was placed in the United States of America; the notes were to be in denominations of 25 and 100 rubles, of special "American" design; and delivery was promised early in 1918.

On 22nd August 1917 it was decided to issue 250 ruble notes of a much simpler design than the 1,000 ruble notes, but of a sufficiently high technical quality. On the same day, the Council of Ministers sanctioned the issue of Treasury notes in denominations of 20 and 40 rubles. The history of these notes is interesting: in the hope of averting the catastrophe which seemed bound to occur by the end of September or early in October, the late M. Shipov, then Director of the State Bank, suggested that the blocks of consular stamps should be used for printing new notes. This suggestion was adopted, the back of the notes was covered with a complicated design, and they were printed on water-marked paper. Since the notes were of very small size, and their issue was a matter of the greatest urgency, they could be neither signed nor numbered. Consequently these notes, although they were by no means so easily counterfeited as is generally supposed, were not technically perfect, and were very different from the notes to which the public was accustomed. There was therefore reason to expect that the public would refuse to accept them or would accept them only at a discount. Although described as "Treasury notes" in order to emphasize the fact that they were a temporary

expedient, specially designed to meet the urgent requirements of the Treasury, they were put into circulation through the regular channel—the State Bank—forming part of its legal fiduciary issue. The notes were so urgently needed in circulation that they had to be issued, as printed, in uncut sheets; indeed, the situation was so extremely critical that it was even suggested at the Ministry of Finance that the notes already issued should be allowed to be cut into pieces.

In any case, however, the fact that the issue of these Treasury notes was forced upon the Government by circumstances was bound to make a bad impression on the public. While the denominations of these notes were relatively high, their design differed from that of other notes, and the difference was not in their favor. The Ministry of Finance published a special explanation of the causes which had led to their issue, adding that an order for technically perfect bank notes had already been placed, and that the Treasury notes were shortly to be withdrawn. It was intended to limit their issue to a total of 1,000 million rubles. Comparatively few were issued by the Provisional Government; but after the Bolshevik Revolution they became, for a time at least, the principal instrument of the Communistic financial administration.

The unpopular Treasury notes soon became known as *kerenky*, from the name of Kerensky, at that time Minister-President. The public did not refuse to accept them, but, in accordance with Gresham's law, their appearance in circulation led to the hoarding of "Romanov" notes, and ultimately caused the latter to circulate at a premium; the same thing occurred during the French Revolution with the *assignats* issued under the Monarchy.

Thus, by the end of the period of the Provisional Government, the Russian currency consisted of a heterogeneous collection of notes of various designs, and already contained in itself the causes of its eventual disorganization. By a curious coincidence, this disorganization was actually brought about by those very persons who had criticized the Imperial Government most bitterly for its alleged carelessness in the issue of paper money.

It should be added that the small change Treasury notes introduced in 1916 had never replaced the small change stamps, because the intended withdrawal of the latter in exchange for notes of the new issue was never carried out. Moreover, for reasons of economy,

on 21st September 1917 the Provisional Government decided to use the large stocks of 1, 2, and 3 copeck stamps, and issued them with their values imprinted in black ink, with the intention of eventually withdrawing the small change Treasury notes of the same denominations. The 50 copeck Treasury notes alone became a firmly established constituent of the currency.

The War and the Revolution of March 1917 caused the abandonment of the gold standard in Russia, and the currency became exclusively one of paper money, all metallic coins having disappeared from circulation. The ruble had by this time depreciated by about two-thirds to three-fourths of its pre-war value; its purchasing power had indeed fallen so far that it was now only equivalent to that of a pre-war 25 copeck piece.

As far as the currency was concerned, more harm was done by the revolution which broke out during the War, than by the War itself. The primary cause of the disorganization of the currency was undoubtedly the excessive burden of war expenditure. According to the figures of the Treasury, extraordinary credits to the total amount of 45,266.7 million rubles were assigned for the prosecution of the War down to 24th October 1917. This figure includes 1,653.6 million rubles granted to the Zemstvos' and Towns' Unions and other organizations for the relief of the wounded. To meet this expenditure, loans had been raised both abroad and at home; and down to 23rd October 1917—the date of the last return published by the State Bank—15,507.2 million rubles in notes had been placed at the disposal of the Treasury by the State Bank, which had discounted Treasury bills to this amount. The total issue of notes on the same date reached the figure of 18,917 million rubles, while the stock of gold held as security against them (exclusive of gold held abroad) amounted to 1,292.1 million rubles. Some further part of the issue, although not actually covered by short-term Treasury bills, could undoubtedly have been made available for fiscal purposes. Failing exact data of the payments actually made from the credits allocated for war purposes down to 24th October 1917 it is only possible to estimate approximately the extent to which the requirements of the Treasury were met by the issue of paper money. According to the data of the Treasury Department,⁶ by the end of October 1917

⁶ Secret records in the possession of the present writer.

the total expenditure on the prosecution of the War had reached 42,000 million rubles, while 15,000 million rubles of notes had been issued on the discount of Treasury bills. This total amounts to about 38 per cent or nearly two-fifths of the total war expenditure.

CHAPTER III

EFFECTS OF INFLATION AND THE MEASURES TAKEN BY THE GOVERNMENT TO COMBAT THEM

1.

THE continually increasing quantity of inconvertible paper money in circulation was bound to produce the economic effects which usually accompany the depreciation of currency. These effects varied in extent and intensity at different periods, but as time went on, they became ever more pronounced. The period of the Provisional Government's administration served, to a certain extent, to prepare for the final breakdown of the Russian currency which took place under the Bolsheviks.

The inflation of currency always tends not only to bring about the general and specific depreciation of the monetary unit, to cause an excessive issue of securities, and to stimulate speculation, but it also interferes with the stability and the regular activities of the money market. New riches are accumulated, and a group of *nouveaux riches* appears; in other words, inflation causes a wholesale redistribution of wealth—a peculiar form of economic revolution.

During the War, in addition to the accumulation of depreciated paper money, an enormous proportion of the flower of the population was withdrawn from productive work; this naturally reduced the supply of commodities on the market and contributed to the process of currency depreciation. It is impossible to estimate how far currency depreciation would have proceeded within the comparatively short period of the War, had it not been counteracted by the extensive hoarding of money by the peasants—whose inborn instinct for saving helped to reduce the active circulation—and had not the disorganization of normal credit facilities caused an enormous increase in the demand for ready money.

The first aspect of the depreciation of the currency to be considered in this chapter is the fall in the internal purchasing power of the paper ruble, as expressed in the rise in commodity prices. This phenomenon occurred during the World War in all countries connected with the world market, for all were bound to be affected by the catas-

trophe. The universal rise in prices was especially marked in the belligerent countries, where specie payment was suspended and the currency became liable to inflation. In speaking of a rise in commodity prices, however, one should always bear in mind that such a rise is a complex phenomenon, depending on the joint action of two distinct factors—the supply of commodities, and the supply of money. It is practically impossible to separate the effects of these two forces and to assign to each its relative importance. The Commissions appointed by various organizations in Russia to study the causes of the universal rise in prices, like the committees which studied the problem in western Europe, not unnaturally failed to find an exhaustive explanation of the phenomenon; or to ascertain the extent to which it was due to any one of its various causes, or to inflation in particular. Theory and experience, however, combine to show that a certain correlation usually exists between the increase in the issue of paper money and the rise in prices.

The rise in prices did not begin in Russia until the early part of 1915. War had been declared before the Russian crops were moved. It was therefore reasonable to expect that the diversion of the exportable surplus of grain to the home market would bring down grain prices and thus help to cheapen other commodities produced in Russia. That this did not happen was due, in the first place, to the increased consumption of foodstuffs by the army, and secondly, to the decrease in the quantity of goods brought to the market; the prevailing state of alarm and the withdrawal of a very large number of workers from the villages on mobilization accounted for the latter phenomenon.

Some idea of the rise in price of various products can also be obtained from the customs returns of the value of goods imported and exported.¹ Taking the price of fourteen principal exports in 1913 as = 100, the following series of index numbers is obtained:

July-December 1914	108.1
January-June 1915	138.0
July-December 1915	155.1
January-June 1916	195.7
July-December 1916	215.9
January-June 1917	311.0

¹ S. Prokopovich, *Voina i narodnoe khozyaistvo* (*The War and National Economy*), Moscow, 1918, pp. 44 sqq.

These figures indicate that the ruble began to depreciate more rapidly during the second half of 1916. There is no doubt that farmers and traders were the classes of the population that profited most by the depreciation of the currency. The working classes were less fortunately situated, for the increase in wages tended to lag behind the rise in prices; it was only after the Revolution, under the influence of that great social upheaval, that the rise in wages overtook the rise in commodity prices and became a powerful factor in their further increase.

These conditions greatly accelerated the process of inflation. Not only were immense sums of money required for the current expenses of industry, while the demands made for this purpose on the savings of the population rendered it more difficult for the Treasury to float new loans on the home market, but the cost of carrying on the War increased greatly; the only hope of meeting it lay in further inflation by the issue of new notes. Russian finance was thus gradually drawn into a vicious circle and, after the Revolution, the prosecution of the War became ever more difficult, on account of the immense expenditure involved and the disorganization of the currency. It may certainly be assumed that, after the Revolution, this disorganization became a powerful factor in the dissolution of the country's economic system. The fact that the monetary unit had lost its stability destroyed the people's confidence in all money, especially since the issue of notes of a "simplified pattern," such as the 20 and 40 ruble Treasury notes (*kerenky*), had struck a serious blow at the dignity and value of paper money.

Whenever a country adopts a régime of inconvertible paper money, the value of its notes can always be stated in terms of their nominal gold equivalent, in spite of the disappearance of that metal from active circulation. This was bound to occur in Russia, especially as the internal production of gold was relatively large. If the Government was unwilling to contemplate either the export of gold, or the suspension of its production, it should have been prepared to pay a higher price in paper money to the producers than had been paid before the War. This course would, however, have involved an acknowledgment of the depreciation of notes. The first acknowledgment of this depreciation was made on 24th November 1915 in an Order of the Minister of Finance submitted to the Senate, based

on a discussion in the Council of Ministers concerning "measures for the encouragement of gold-mining in Russia and for the increase of the reserve of gold at the disposal of the Treasury." The Minister of Finance, in conjunction with the Minister of Commerce and Industry and the State Controller, introduced a system of special premiums on gold delivered to the Crown through government gold-melting laboratories and through the Petrograd Mint. This premium was provisionally fixed at 30 per cent of the value of fine gold delivered, after deducting the quantity required to defray the mining duty and all other charges. This measure, long overdue, was immediately put into force by telegram. Shortly after its publication—on 14th January 1916—the premium was raised to 45 per cent. Thus, by the end of 1915, the Government had indirectly acknowledged the depreciation of the paper ruble to 70 copecks gold. Two months later, its value was reduced to 55 copecks gold. Under the Provisional Government the price of gold was still further raised to 11 rubles 50 copecks per zolotnik (4.2 gr.), or more than double the pre-war price of 5 rubles 51 copecks.

It is thus evident that by the middle of 1917, when the tremendous social and economic catastrophe in Russia was only beginning to develop, the purchasing power of the paper ruble had already fallen to one-third of its pre-war value, the depreciation being especially marked in the towns. Other estimates give an even gloomier picture of the situation. It may be inferred from these data, a few of which are given in the footnote below,² that the cost of living in the towns had risen by this time to about four times its pre-war figure. Various factors were responsible for this increase. It need only be mentioned here, however, that from the second half of 1916 onwards, the influence of inflation became far more pronounced. During the third quarter of 1917, the period immediately preceding the Bolshevik Revolu-

² The problem of the decline in the purchasing power of the paper ruble in the home market, which forms part of the larger problem of the rise in the cost of living in Russia during the War and the Revolution, has not been sufficiently investigated. At the present time the materials available appear to be very scattered and as they are uncoördinated and incomplete, it is very difficult to interpret them. In addition to the data quoted above, there are several other sets of computations which suggest different conclusions: some of the figures given by M. Pervushin in his interesting article published in *Trudi*

tion, a number of circumstances combined to precipitate the fall of the paper ruble, with the result that in October it was worth hardly more than 20 gold copecks, or one-fifth of its face value.

The rate of exchange of the paper ruble fell considerably very soon after the outbreak of the War. This fall was due, in the first place, to the effect of the War on Russia's foreign indebtedness. It has been explained in the foregoing chapters that the adverse balance of indebtedness was usually covered by the excess of exports over imports. The rate of exchange of the ruble therefore depended on the export of cereals and other agricultural products. Whenever the balance of trade was adverse to Russia owing to a decrease in her exports or to a decline in their value, the Government had been obliged to raise loans abroad, in order to prevent the export of gold. The War began at a time when the Russian crops had not yet been moved; and the country was therefore suddenly faced with a shortage of foreign credit with which to meet her regular liabilities. Moreover, the closing of all

Instituta Ekonomicheskikh Izsledovani (Transactions of the Institute of Economic Research) (Moscow, 1922, vol. I, pp. 82 *sqq.*), are here quoted:

General movement of commodity prices in Moscow:

Yearly percentage increase from 1st July of each year to 30th June of the next.

	1914-1915	1915-1916	1916-1917
Rye bread	34	24	140
Rye flour	36	25	152
Millet	67	9	300
Potatoes	0	73	669
Butcher's meat	23	70	90
Milk	12	44	186
Butter	30	113	54
Sugar, granulated	15	20	40
Salt	43	170	...
<i>Average of 16 commodities</i>	<i>31.8</i>	<i>53.4</i>	<i>118</i>
The amount of money in circulation increased by	130	77.2	94.6
	(1,630 to	(3,750 to	(6,630 to
	3,750	6,630	12,900
	million	million	million
	rubles.)	rubles.)	rubles.)

These figures serve to show that, by the middle of 1917, the purchasing power of the ruble, as expressed in the rise of the prices of this group of representative commodities, had fallen to one-fourth of its value as compared with

the western frontiers, followed by the blocking of the southern outlets, left open only two of the least convenient trade routes—those through the extreme North and the Far East; and since most of the Russian exports consisted of bulky agricultural products and raw materials, the sources from which Russia usually drew the foreign exchange required for the service of her foreign loans and to pay for urgent orders placed abroad practically ceased to exist. Moreover, an embargo was placed on the export of an ever increasing number of commodities that were, or were expected to be, needed for the Army and the essential industries. Imports, meanwhile, far from having decreased, had actually increased owing to the exigencies of the War.

So little preparation had Russia made for a war with Germany, that she had, for instance, neglected to develop her chemical industry and had remained dependent on Germany for chemical products. The output of war materials, though sufficient for peace-time or for a short war, proved absolutely inadequate to meet the strain of a war on a world-wide scale, and Russia was obliged to place orders abroad

the first half of 1914. There exists also a marked correlation between the rise in prices and the increase in the quantity of paper money in circulation; until the middle of 1916, however, the former tended to lag behind the latter, while after that time the rise in prices overtook the increase in the issue of notes. It can be inferred, therefore, that from that time onwards the influence of inflation, as stated above, became especially pronounced, although it was certainly combined with a general shortage of goods on the market. Immediately before the Bolshevik Revolution there was a very sharp and universal rise in prices, due to the extreme uncertainty of social and political conditions.

According to unpublished calculations made by M. Kohn, the index numbers of prices rose as follows:

Middle of 1914	100	Beginning of 1916	155
Beginning of 1915	115	Middle of 1916	195
Middle of 1915	130	Beginning of 1917	250
	Middle of 1917		450

The most probable index number for the whole of Russia, in the middle of 1917, would, it seems, be between 350 and 400. It would, therefore, appear that by that time the purchasing power of the ruble in the home market was approximately equal to that of 25 pre-war gold copecks, or 25 per cent of the face value of the note.

(For a detailed discussion of this problem cf. Prof. P. B. Struve, *Food Supply in Russia during the War* of this series of the *Economic and Social History of the World War*.)

for munitions and guns, for plant and machinery, and for the various raw materials needed by her industries. It is hardly surprising that under such conditions the Russian trade balance was extremely unfavorable during the War. The position is shown in the following table:

	<i>Exports</i>	<i>Imports</i> (millions of rubles)	<i>Balance of Trade</i>
1914	956.1	1,098.0	141.9
1915	401.8	1,138.6	736.8
1916	579.3	2,682.5	1,903.2
1917 (down to 15th October)	363.3	2,158.6	1,795.3

The total adverse trade balance during this period amounted to over 4,500 million rubles. This sum, it is true, is expressed in depreciated paper rubles; but the comparison between the value of exports and imports gives a sufficiently clear idea of the influence that trade conditions were bound to exercise on the rate of exchange, for it is in the balance of trade that we find the explanation of the depreciation of the ruble in foreign markets, which culminated in the headlong fall in the rate of exchange. It was most unfortunate that the Government, which proved itself capable of organizing imports on so large a scale, failed to make use of the trade routes still available—those through the north of Russia and through Vladivostok—to develop the export trade to the fullest possible extent. It was shown, in the course of a most instructive debate on this subject in the State Duma that the export of many commodities, for instance caviare and Siberian butter, was prohibited without sufficient reason. It should have been possible to arrange for the export of many hundred million rubles worth of these products, without injury to Russia's economic position.

While the Government adopted drastic measures to prevent the export of goods, it was only after long delay (on 20th October 1916) that the pressure of public opinion compelled it to impose restrictions on the importation of luxuries; in February 1917 their importation was entirely prohibited.

The measures taken to prevent the export of Russian capital to countries whose currencies were more stable were also inadequate; they will be discussed in a later chapter. There was certainly evidence of a desire, by transferring capital, to avoid the consequences of the

depreciation of the Russian currency or to speculate in exchange; and the export of capital undoubtedly contributed to the fall in the exchange value of the paper ruble.

Finally, it would be a mistake to underestimate the influence which the course of the War exercised on the rate of exchange. The heaviest blow was inflicted by the reverses suffered during the summer of 1915. The loss of confidence in the speedy restoration of a sound currency which ensued was effectively turned to account by speculators.

The extraordinary fluctuations in the rate of exchange during the first few weeks of the War may without disadvantage be omitted from this discussion, for at a time when all relations with western countries had suddenly been broken off, and new ones had not yet been established, persons who were anxious to remit money to friends stranded abroad were ready to pay any price for a draft, especially as the exchanges were closed. There were even moments when the rate of exchange of the ruble fell to 75 per cent of its par value. In September 1914 conditions became more settled, and it is possible to trace the fluctuations in the rate of exchange during the subsequent period.³

Rate of exchange of the ruble in London from the outbreak of the War until the end of 1917.

(Par of exchange: £10 = 94.57 rubles.)

		<i>Percentage of value as com- pared with ex- change at par</i>
August 1914	no quotation	
15th September 1914	100 — 115	82.3
15th October 1914	108 — 118	80.2
15th November 1914	107 — 117	80.9
15th December 1914	117 — 119	79.5
15th January 1915	116 — 118	80.2
15th February 1915	109½ — 111½	84.8
15th March 1915	113¼ — 115¼	81.9
15th April 1915	113¼ — 115¼	81.9
14th May 1915	119 — 121	78.2
15th June 1915	124½ — 126¼	74.9
15th July 1915	135 — 138	68.5

³ The table which follows was prepared from the records of the Russian Stock Exchange and in collaboration with A. E. Lohmeyer.

*Percentage of
value as com-
pared with ex-
change at par*

14th August 1915	135 —140	67.5
15th September 1915	135½—137½	68.9
15th October 1915	138½—140½	67.1
15th November 1915	142½—144½	65.5
15th December 1915	150 —151	62.6
15th January 1916	160½—162½	58.2
15th February 1916	150¼—152¼	62.1
15th March 1916	150 —151	62.6
15th April 1916	157½—158½	59.6
15th May 1916	156 —157	60.3
15th June 1916	155¼—156¼	60.5
15th July 1916	155 —156	60.6
15th August 1916	156¼—157¼	60.2
15th September 1916	150½—152	62.2
14th October 1916	152¼—152¾	61.9
15th November 1916	154 —157½	60.1 ⁴
15th December 1916	158½—161½	58.6 ⁴
15th January 1917	162½—163½	57.8 ⁴
15th February 1917	162½—164½	57.5 ⁴
15th March 1917	168 —169	56.0 ⁴
14th April 1917	165¼—165½	57.1 ⁴
15th May 1917	171¼—172½	54.8 ⁴
15th June 1917	206½—208½	45.3 ⁴
14th July 1917	203 —204	46.4 ⁴
15th August 1917	226½—228	41.5 ⁴
15th September 1917	285 —290	32.6 ⁴
15th October 1917	294 —316	29.9 ⁴
15th November 1917	358 —368	25.7 ⁴

These tables show how the continual increase in the adverse trade balance operated to bring down the rate of exchange. As always happens in the case of depreciating currencies, the ruble, having once lost its stability, became subject to political and psychological influences, which accounted for some of the sharpest fluctuations in the rate of exchange. For instance, a favorable influence was exercised by the successful defense of Warsaw in October 1914, while the retreat from the Carpathians in the spring and summer of 1915

⁴ The rate of exchange of sterling, which remained fairly stable during the first two years of the War, began itself to fluctuate in 1916 in terms of the currencies of neutral countries. The data quoted above therefore do not repre-

brought about a very heavy fall in the rate of exchange, reducing the value of the ruble from over 80 copecks to just over 60 copecks. Similar effects followed all the reverses of the Russian or Allied Armies—the evacuation of Gallipoli, the fall of Bueharest, and other misfortunes. The chart in Appendix II gives some idea of the connection between the fluctuations in the rate of exchange and the events of the War.

The Russian Revolution exercised an extremely adverse influence on the rate of exchange of the ruble, which, in the course of *eight months*, fell by nearly 50 per cent. Apart from the general confusion

sent the actual depreciation of the ruble and require a further correction. If we take into consideration that sterling was quoted in Swiss francs as follows (the par of exchange being £1 = 25.225):

15th November 1916	24.85
15th December 1916	23.90
15th January 1917	24.00
15th February 1917	23.95
15th March 1917	24.00
15th April 1917	24.26
15th May 1917	24.36
15th June 1917	23.65
15th July 1917	21.96
15th August 1917	21.15
15th September 1917	22.50
15th October 1917	22.30
15th November 1917	20.90

then the ratio of the depreciation of the ruble as compared with stable currencies will be expressed by the following percentages:

15th November 1916	59.2
15th December 1916	55.6
15th January 1917	55.0
15th February 1917	54.6
15th March 1917	53.3
15th April 1917	54.9
15th May 1917	52.9
15th June 1917	42.4
15th July 1917	40.4
15th August 1917	37.8
15th September 1917	29.1
15th October 1917	26.5
15th November 1917	21.3

created by the political catastrophe, the events which marked the first weeks of the Revolution and the violent passions displayed were indications of the imminence of terrible developments. The only profitable course open to speculators was to make use of the general pessimism and to gamble on the further depreciation of the ruble.

The measures adopted by the Government in the hope of checking the fall of the ruble will be dealt with in a separate section. It is only necessary to add here that the immense deficits caused by the adverse trade balance could only be met from loans raised in Allied countries.

2.

Inflation exercised a marked influence on the activities of the Russian banks. After a short period of confusion, to which reference has been made in the first chapter, and which the private banks were enabled to tide over, thanks to the support afforded them by the State Bank, the accumulation of notes in the hands of the public (except the notes hoarded by the peasants) was bound to find its way to the banks. The resulting increase in bank deposits facilitated the flotation of government long- and short-term loans. On the other hand, the abundance of money tended to stimulate business enterprise; at a time when the War had considerably reduced the productive powers of the country, this might easily have degenerated into mere speculation. The somewhat excessive quantity of money in circulation resulted in business being done mainly on a cash basis, and the circulation of bills of exchange gradually decreased in consequence. The supply of bills being thus diminished, the banks sought other investments for their available resources. In addition to the outlet afforded by dealings in stock exchange securities, the conditions of life at the time suggested another opening—the grant of credit facilities to dealers in merchandise. This, however, as might be expected, ultimately proved to be a hazardous proceeding, for owing to the depreciation of the paper ruble, there was an ever-increasing tendency to invest money in material commodities, as a kind of insurance against loss in the immediate future. Merchandise was therefore hoarded, and kept off the market as long as practicable; this was also done from a desire on the part of the firms concerned to accelerate the rise in prices. Certain banks, controlled by men whose outlook was too narrow to comprehend the interests of the State, succumbed to the

temptation of advancing money on stocks of commodities, and thus encouraged an unhealthy speculation in merchandise. The fact that certain financial houses were known to be engaged in this kind of business, tended to embitter the public against private banks as a whole. Even before the Revolution, this bitterness frequently assumed violent forms. As always happens, the public readily forgot the great services previously rendered by the banks—for instance, their assistance in floating government loans and in providing money for war industries—and their immense importance in the economic organization of the country.

The following table shows the changes in the balance sheets of the banks during the War:⁵

Deposit and current accounts.

	<i>1st January 1914</i>	<i>1st January 1915</i>	<i>1st January 1916</i>	<i>1st January 1917</i>	<i>1st August 1917</i>
	(millions of rubles)				
State Bank (exclusive of the current account of the Treasury, of special funds and deposits, and of bal- ances of State savings banks)	263.	478.	954.	1,001.5	2,223.1
Private commercial banks	2,568.	2,917.	3,968.	6,195.5	7,466.1
Mutual credit associations	595.	511.	557.	963.5	1,255.3
Municipal banks	186.	216.	250.	376.7	431.8

The growth of deposits and current accounts in private banks alone is shown by the following figures:

	<i>Millions of rubles</i>
1st August 1914	3,393.3
1st January 1915	3,518.6
1st January 1916	4,346.1
1st January 1917	7,566.4
1st August 1917	9,153.3

According to unpublished data, available to the writer in his official capacity, the deposit and current accounts in private banks on

⁵ Figures taken from *Ezhemesyachnii Balansi (Monthly Returns)* and *Obyasnitelnaya Zapiska (Explanatory Memorandum)* of the Minister of Finance.

1st September 1917 amounted to 9,280.4 million rubles. If we include the capital of the banks themselves, which had increased from 1,063.5 million rubles in January 1915 to 1,225.1 million rubles by 1st September 1917, we arrive at the enormous figure of 10,305.5 million rubles. Inflation had thus enabled the private banks to acquire control of more than twice the amount of money at their disposal at the beginning of the War. The increase in deposits and current accounts naturally demanded a corresponding extension in advances; these greatly developed during the second half of 1916, when the pressure of deposits was especially heavy, and the development took the form, to a considerable extent, of increased advances on merchandise. The increase in the aggregate of the loans and discounts of all the private banks is shown below:

	<i>Millions of rubles</i>
1st August 1914	4,309.9
1st January 1915	4,000.0
1st January 1916	4,036.0
1st January 1917	5,772.4
1st September 1917	7,102.5

The amount of securities held as investments by private banks also showed a continual increase, proof of the important part taken by the banks in subscribing to government loans:

	<i>Millions of rubles</i>
1st January 1915	513.2
1st January 1916	696.2
1st January 1917	931.1
1st August 1917	1,310.9

The State Bank was forced by circumstances to concentrate its activities on the direct provision of money to the Treasury by discounting short-term Treasury bills, and on financing government transactions, such as the purchase of grain and other commodities. In consequence, the direct dealings of the Bank with the market did not develop during the War, but rather diminished. The increase which took place in some branches of the State Bank's operations—for instance, credit accounts covered by bills and Stock-Exchange securities—was definitely due to the flotation of government loans on

a very large scale. The following figures give an adequate idea of the position:

	<i>Discounts</i>	<i>Credit accounts covered by</i>	
		<i>Bills of exchange</i>	<i>Stock exchange securities</i>
	(millions of rubles)		
16th July 1914	315.8	91.6	105.5
1st January 1915	371.4	238.2	208.6
1st January 1916	242.9	141.9	585.5
1st January 1917	144.3	106.2	502.8
16th October 1917	227.7	226.3	1,404.9

Loans on Stock-Exchange securities deposited with the Bank also increased from a total of 23.5 million rubles on 16th July 1914 to 100.5 million rubles on 16th October 1917. The position with regard to the financing of the Government was quite different, and is shown below:

	<i>Discounts of Treasury notes</i>	<i>Advances for commercial transactions</i>	<i>Investments in government loans</i>
	(millions of rubles)		
16th July 1914	....	.....	103.0
1st January 1915	656.6	.....	146.9
1st January 1916	3,231.5	.....	268.0
1st January 1917	6,866.0	.....	132.0
16th October 1917	15,221.5	1,297.6 ⁶	181.2

Before the War, the State Bank was a "bankers' bank" in the sense that it advanced abundant credit to private financial houses; but later, owing to inflation, the private banks were enabled to dispense with its services and even to come to the assistance of the Treasury by subscribing to government loans and by discounting Treasury bills. The State Bank, however, remained the real foundation of the whole credit system of the country.

The accumulation of "paper wealth" in Russia, due to inflation, was also strikingly illustrated by the growth of deposits in the State savings banks, which, being in close touch with the great mass of the

⁶ These advances were made from 1st August 1917 at which date they stood at 300.8 million rubles.

population, are particularly sensitive to general changes in prosperity. The increase in these deposits is shown below:

	<i>Cash</i>	<i>Bonds</i> (millions of rubles)	<i>Total</i>
1st July 1914	1,704.2	368.8	2,073.0
1st January 1915	1,835.0	401.0	2,236.0
1st January 1916	2,448.6	664.4	3,113.0
1st January 1917	3,889.5	1,335.8	5,225.3
1st September 1917	4,829.6	1,910.2	6,739.8

It will be noticed that the deposits increased by 613.6 million rubles in 1915; by 1,440 million rubles in 1916, and by 940.1 million rubles in the first eight months of 1917. It would appear, therefore, that the more the population was impoverished by the War, the greater became its savings. This appearance of prosperity was, of course, misleading, being almost entirely due to the depreciation of money. It is, however, true that to some extent at least, the increase in savings was due to an actual improvement in the condition of certain groups of the population during the War, as a result of the redistribution of wealth which took place. In any case, in September 1917 the ruble was still worth about one-quarter or one-third of its face value, and the aggregate value of the savings could not, therefore, by any computation be reckoned as less at that date than in 1914. Another feature of the situation for which the inflation of the currency was responsible was the launching of many new businesses from 1916 onwards, when large additions were made to the capital of the banks and other business concerns, and new joint-stock companies for industrial and trading purposes were formed in ever-increasing numbers. The total share capital of these newly authorized industrial and trading concerns is given below:

	<i>Millions of rubles</i>
1913	525.9
1914	422.4
1915	409.6
1916	923.4
1917 (January-August)	1,351.5

In 1915, the highest monthly figure, 91.7 million rubles, was reached in December; in 1916, November was a record month, for the amount of new capital flotations authorized reached 137.6 million

rubles ; while, in December 1916 the figure was 133.3 million rubles. The increase was, however, even greater in 1917, after the Revolution, as may be seen from the monthly record given below :

	<i>Millions of rubles</i>
January 1917	103.9
February 1917	122.8
March 1917	102.5
April 1917	168.8
May 1917	256.8
June 1917	200.0
July 1917	103.4
August 1917	292.5

Neither the Imperial nor the Provisional Government, both of which were entirely absorbed by the pressing problems of the War, was able to devote sufficient time and energy to the task of combating inflation. The measures taken were mainly directed against its effects ; and, as usually occurs with palliatives, they proved to be of little avail.

The increase in the cost of living and the unfortunate shortage of small change resulted, accordingly, in the promulgation of the law of 8th September 1916, which imposed heavier penalties for the deliberate reduction or raising of the price of necessities ; in other words, the existing laws were made more stringent. The law was in fact passed mainly to appease popular clamor ; it was not expected to achieve any real solution of the problem. It was perfectly evident that, under existing conditions, a rise in prices was inevitable. In so far as the problem was really one of combating pernicious speculation, the solution which suggested itself was to extend the sphere of government and municipal enterprise.

We have already seen that certain private banks were inclined to avail themselves of their country's misfortunes for their own benefit. They also found it profitable to engage, more or less secretly, in trading operations on their own account, to abuse the issue of letters of guaranty in connection with government orders, and also to conduct speculative dealings in foreign exchange, in some cases in direct contravention of the law.

It would have been better if the Government had followed the practice gradually evolved in western countries, and had endeavored to

concentrate all transactions in foreign exchange in its own hands; it would thus have obtained effective control over the money market. At first, however, it confined itself to passing certain "prohibitive measures," which frequently proved ineffectual. After a time the activities of certain banks roused the public (in spite of its incompetence in technical problems) to a storm of indignation. Instead of instituting legal proceedings against the alleged offenders, the Government decided on a general measure providing for a stricter supervision of all private banks, a course which might easily prove harmful by bringing them into wholesale discredit. On 10th September 1916 the Tsar gave his assent to an Act extending the powers of the Minister of Finance in this direction. The measure was, however, described as "provisional and necessitated by war-time conditions," and was only intended to remain in force for one year after the ratification of the treaty of peace. This enactment authorized the Minister of Finance to take all necessary measures to discover "whether the commercial banks of the Empire . . . are infringing the laws which prohibit transactions with foreign organizations or with the subjects of foreign countries, or the laws, statutory provisions, and government regulations concerning transactions connected with trade, foreign exchange or guarantees." If any infringement of these laws were discovered, the Minister of Finance was empowered to suspend the right of the banks concerned to transact certain kinds of business until the repeal of the act.

At the same time, under pressure from General Army Headquarters, a special commission was set up to inquire into the alleged illegal transactions of a number of financiers who were suspected of communicating with the enemy. The commission began its task with much zeal. It arrested several persons of high standing and endeavored to bring to light an extensive criminal plot. The Revolution of March 1917, however, cut short its activities and frustrated the attempt of the Minister of Finance to put into effect the extensive powers conferred on him for the strict supervision of private banks.

The Minister of Finance should certainly have been authorized to exercise such supervision, especially in war-time; and no reasonable objection could have been raised to such powers. It is equally evident that the Courts were bound to punish infringements of the law. The efforts of the Government, however, should have been

directed not so much against the effects of inflation, as against inflation itself, and an attempt should have been made to devise a systematic and resolute policy. Once inflation had been permitted to develop, its consequences had to be faced. All attempts to prevent its effects by threats and prohibitive measures, while the cause remained, were inevitably doomed to failure. In the circumstances the measures taken should have been of a constructive nature, and their aim should have been to mitigate the effects of inflation rather than to prevent them.

The measures taken to stabilize the rate of exchange of the paper ruble and to prevent the export of Russian capital will be discussed in the next section. There had been a tendency to export capital after the momentous military reverses, and this became even more pronounced after the Revolution.

3.

The first enactment designed to support the rate of exchange of Russian currency on foreign markets was the Ukase of 15th November 1914. The purpose of this decree was twofold: to prevent any dealings with subjects of enemy countries; and to prevent or, at least, to minimize the eventual export of Russian money and securities. The Ukase, "Certain measures necessitated by war-time conditions," contained the following principal provisions:

Pending the issue of special regulations, it is forbidden, without permission from the Minister of Finance, who is to act, when circumstances require it, in conjunction with the Minister of Commerce and Industry, (1) to effect payments, deliveries, remittances, or consignments of any sums in money, securities, silver, gold, platinum, or any kind of precious stone, or articles manufactured of such metals and stones, to any Austrian, Hungarian, German, or Turkish establishments, companies, or partnerships, or to Austrian, Hungarian, German, or Turkish subjects outside the Russian Empire, either directly or through intermediary persons or establishments, wheresoever the latter may be situated and whatsoever may be their legal position with regard to the above-mentioned corporate bodies or individuals; (2) to carry out of the country in the possession of any one person more than 500 rubles in cash, securities, silver, gold, or platinum, securities being valued at their face value; this prohibition to apply to articles of silver, gold, or any other precious mate-

rials representing value in excess of those indicated in the Customs Statute; and (3) to allow anyone to have access to safes hired in banks on the strength of letters of attorney given by persons or corporate bodies enumerated in clause 1.

Infringement of the regulations by attempted smuggling across the frontier was punishable by the confiscation of the articles in question, or by fines ranging from 1,000 to 25,000 rubles and imprisonment for a term not exceeding sixteen months.

There is no need to dwell on the obvious impossibility of permitting communications to be maintained with individuals or corporations in enemy countries. It is necessary, however, to point out the inadequacy of clause 2 of the Ukase, which immediately became apparent in practical application. To impose restrictions on the *actual exportation* by individuals of money or of the other valuables enumerated, without mentioning the *consignment* by rail or post of these articles, was no solution of the problem, for, according to the strict letter of the Ukase, the consignment abroad of gold, for instance, was not forbidden. It therefore soon became necessary to have recourse to a wider interpretation of the Ukase, by the declaration that exportation implied also the *consignment* abroad of money or valuables. This interpretation, given originally by the Credit Office,⁷ which instructed the institutions concerned to observe it, was ultimately sanctioned by the Council of Ministers on 8th May 1915. The discussion which took place at this meeting deserves notice, since the problem under consideration was of great importance to Russia. The Minister of Finance stated that the number of applications for permission to export bank notes and Russian securities was considerable, and that in many cases the application for licenses involved large sums of money. The Minister of Finance considered that these requests were due to the desire of the applicants to effect settlements for their purchases abroad, on terms most advantageous to themselves, "owing to the difference in the values attributed to various currencies in Russia and abroad." "It is, however," the Minister stated, "impossible to deny that some of the applications for the export of notes—which, moreover, involve large sums—have not been made with this object and may be the result of business relations still maintained with subjects of enemy countries, or of a desire to effect settlements of ac-

⁷ See p. 353, n. 9.

counts arising from former transactions with them, or, finally, they may have been made with a view to speculation.”⁸ These fears were certainly present for some time in the mind of the Government: as early as January 1915 the Council of Ministers issued instructions to the institutions concerned to refrain from permitting large sums to leave the country until their real destination had been ascertained.

The demand for the export of Russian notes greatly increased after the Germans had occupied large tracts of Russian territory. In this connection, the Minister of Finance referred to the case of a certain bank in Sweden, which had applied for permission to export from Russia one million rubles.

In spite of these dangers, which he himself emphasized, the Minister of Finance thought it necessary to adopt “a more liberal attitude towards the granting of licenses to banks and private individuals for the export of notes and Russian securities to any amount required for the settlement of accounts arising from commercial transactions.” In proposing this measure, the Minister argued as follows: Since Russia was unable to pay for her enormous imports of goods by the proceeds of her export trade, and was, therefore, in extreme need of foreign exchange, the export of bank notes and of Russian securities appeared to be one of the most effective means of meeting the situation. The notes, when they had fulfilled their function, would of necessity return to Russia and would, he supposed, even alleviate the difficulties of the State Bank with regard to its fiduciary issue. The latter argument was, it would seem, based on a misconception, and could only be justified if the notes were destined to return directly into the possession of the State, which, as a rule, was not the case. The export of Russian securities, according to the Minister, “lessened our indebtedness to foreign powers and met our need for foreign credit.” While, however, the Minister might acquiesce in the export of notes to such an amount as would not threaten Russia with the accumulation of large stocks of her paper money abroad and the consequent downward pressure on the rate of exchange—a state of affairs which actually came to pass a little later—the continuous flow of Russian securities from the country would certainly be equivalent to a wholesale emigration of Russian capital.

⁸ Quoted from the Minutes of the Meeting of the State Council preserved in the Office of the Russian Financial Attaché in London.

This statement is strictly accurate with regard to the export of the shares of Russian business concerns. The export of government bonds could, to a certain extent, be looked upon as a special way of placing them on the market; but in so far as the shares were concerned, their export undoubtedly meant that the debts which Russia had contracted abroad were being met by the transfer to foreigners of a part of the national capital.

It is extraordinary that the Ministry of Finance was not awake to the real dangers of the situation just described, and that it was so ill-advised as to insist on greater facilities being granted for the export of notes and securities. In virtue of the Ukase of 15th November 1914 the Post Office had claimed that it was necessary for private banks to present a special license from the Minister of Finance for each parcel posted abroad. "This method of procedure," the Minister of Finance declared, "is causing great inconvenience to banks; and is not justified on any serious economic grounds. Therefore . . . it would seem advisable to permit Post Offices freely to accept parcels and packets containing securities and bank notes for dispatch abroad in all cases where the consignors are either joint-stock banks or large banking firms; they must sign a special declaration to the effect that the valuables sent are not intended, either directly or indirectly, for individuals or corporations of enemy origin."

On these grounds, the Council of Ministers decided in favor of a wider exemption from the restrictions imposed by the Ukase of 15th November 1914 and authorized the Minister of Finance and the Minister of the Interior jointly to issue instructions to this effect to the institutions concerned.

The movement of Russian notes and securities abroad had been proceeding under this obviously inadmissible régime for over a year—up to the end of 1916—when the regulations were again revised. In June 1916 in accordance with an agreement between the two ministers concerned, based on the decision of the Council of Ministers referred to above, a new procedure was introduced for the unrestricted export of bank notes, Russian bonds and shares. In the case of large banks this permission applied to consignments intended for all the Allied and neutral countries; in that of private individuals to those for England and France; in all other cases the provisions of the Ukase of 15th November 1914 remained in force.

The consequences were precisely what might have been expected: on the one hand, the accumulation of Russian paper money in foreign markets largely contributed to the fall in the rate of exchange; on the other, the facilities granted for the export of notes considerably eased the position of the German troops in Russian territory, for German agents were able to buy great quantities of Russian notes in neutral markets.

It must be admitted that for a long time the Government had followed no definite policy in dealing with the problems of foreign exchange. In its circular of 9th July 1915 the Credit Office took the first step towards establishing control over the exchange market. This circular directed private banks to furnish weekly returns of their transactions in foreign exchange, stating the rate at which the business was carried out. The order was made retrospective, as from 1st January 1915. On 8th August 1915 the original circular was supplemented by a demand for information on the following points: (1) the balances outstanding on current account with foreign establishments and correspondents, and the liabilities of the respective banks on accounts held by them in foreign currencies; (2) their liabilities in respect of letters of credit and drafts, and the free balances available under this particular head; and (3) the balances outstanding on the accounts in rubles of foreign establishments and correspondents. The Credit Office justified this demand by the necessity of keeping a record of all transactions in foreign exchange.

Meanwhile, the situation called for stronger measures. The necessity was clearly emphasized at a conference held early in 1915, under the chairmanship of the Director of the Credit Office, at which representatives of all the principal Petrograd banks were present. Great stress was laid upon the chaotic condition of the exchange market. It was pointed out that although the available supply of foreign drafts was not exceptionally small—the largest banks in Petrograd were buying about £100,000 sterling per month—their distribution was extremely unequal. Consequently, when any individual bank was faced with demands for foreign drafts in excess of the credits at its immediate disposal, it had to depend on the assistance of other banks which happened to be in a more favorable position. This state of affairs tended to raise the rate of foreign exchange unduly. The conference concluded that the only solution was to constitute a special

Settlement Department (*Razchetni Otdel*) connected with the Credit Office, with power to fix the rate of exchange; to direct banks holding unallocated foreign credits to divert a portion of these to other banks in need of exchange to meet genuine requirements, and, in case of a shortage of foreign credit, to provide drafts on the account of the Credit Office.

The temper of the conference was so resolute that it even suggested that transactions in foreign exchange should be confined to the Petrograd banks, all other banks being expressly forbidden to undertake them. A further important suggestion was that banks should be forbidden to tender rubles for sale on foreign markets or to buy them in Russia on commission from abroad, except where the transaction consisted only in the actual collection of monies due to their clients. The conference was also well-advised in proposing to prohibit the banks from supplying foreign drafts where the imports concerned were paid for by drafts provided by the Credit Office, or to finance the purchase of luxuries; the importation of these was undesirable, and the conference suggested that a list of commodities for which drafts should not be provided should be prepared by the Credit Office. The drastic character of these proposals provoked a storm of opposition from the provincial banks, which, for a time at least, prevented these very reasonable measures from being carried out. The Ministry of Finance, moreover, did not fully realize the importance of the problem, and hesitated to embark on a resolute course until the beginning of 1916.

The most important measure adopted during this period of delay was the publication of the ordinance of 21st November 1915. After drawing attention to the fact that the great demand for foreign drafts, exceeding as it did the supply available, had caused a considerable rise in the rate of exchange, the Credit Office requested that great economy should be exercised with regard to the available foreign credits, and directed that no facilities should be given to firms engaged on war contracts, since their requirements were already fully met by the Credit Office. Foreign drafts were in future to be sold to such firms only if they presented a certificate that the Credit Office had refused their application for remittances.

In January 1916 a special Settlement Department was at last established and incorporated with the Credit Office. It included a

representative of the Credit Office, a representative of the State Bank, the Chief Broker, and members of the Petrograd Stock-Exchange Quotation Committee responsible for foreign exchange transactions; and representatives of the Petrograd and provincial banks. The Settlement Department met daily, except on Sundays and public holidays, and transacted its business in accordance with special Regulations of which the most important were these:

The daily conference fixed the rates of exchange. The banks were required to keep the Department informed of all offers of foreign monies, of all orders to purchase such, and of any anticipated deficit or excess. The Director of the Credit Office was authorized to demand explanations of such transactions and to decide whether they were permissible or not; a decision concerning transactions adjudged illegal had to be taken not later than at the next meeting of the Department. Any excess of foreign credit available was placed at the disposal of the Settlement Department for distribution among banks in need of drafts at rates fixed by the Credit Office. Banks were permitted to buy foreign bills of exchange from each other only to meet the demands of private individuals; their purchase for resale to other banks, or to form a reserve for their own use, was prohibited. The banks were forbidden to sell such monies on foreign markets, either on their own account or on commission, or to buy them in Petrograd on commission from abroad, without special permission from the Minister of Finance, except in cases involving only the collection of sums due to their clients' accounts. All transactions in foreign exchange were concentrated in Petrograd; and all the Moscow and provincial banks which had no branches or agents in Petrograd, were instructed to appoint representatives there. Banks were strictly forbidden to sell foreign drafts to pay for imported goods for which remittances were provided by the Credit Office or by the Commission for the allocation of foreign monies of the War Ministry, such as: cotton, rubber, tea, metals, machinery, lathes, sacks, wool, leather, and war materials. They were also forbidden to sell drafts for luxuries: a list of the commodities whose import was considered undesirable was in course of preparation by the Credit Office; meanwhile, all doubtful cases were to be referred to the Settlement Department, and to be subject to the final decision of the Director of the Credit Office. Arbitrage business was permitted, except in cases where the

purpose was "exclusively that of making a profit on the margins." The banks were not obliged to furnish detailed accounts of small transactions not exceeding 2,000 rubles.⁹ The official Stock Exchange brokers were forbidden to transact business in foreign exchange except through the banks.

It will be noticed that the Regulations of the Settlement Department were based on the suggestions made at the conference referred to above. Although the wording of some of the clauses lacked clearness, and no means were indicated for checking the accuracy of the information supplied by the banks, the formation of the Settlement Department was in itself significant, since it was an important step towards rectifying the confusion which had hitherto prevailed on the exchange market. The organization of the Department and the work it carried out cleared the way for the subsequent regulation and centralization of transactions in foreign exchange. The favorable effect of its activities was acknowledged at a Conference between representatives of the banks and of the Credit Office which met on 2nd March 1916, where attention was drawn to the fact that when the new Department began its work, the rate of exchange in Petrograd was even lower than in London; later, however, it rose to 1 per cent or $1\frac{1}{2}$ per cent above the London rate. The Conference was of opinion that this rise was caused by private firms selling rubles in London; "refusing to submit to control and to the restrictions imposed by the Ministry of Finance on the purchase of foreign drafts, they had recourse to the sale of rubles in London, in order to obtain the required sums in foreign currencies." The sale of rubles, the Conference held, could not actually mean the exodus of foreign capital imported into Russia during the War, for, at the current rate of exchange, this would have involved very heavy losses; it was therefore evident that rubles were being exported by Russian business firms. If no measures were taken to combat this development, the foreign exchange market would become entirely disorganized, and the rate of exchange of the ruble would, in practice, be fixed by foreign banks.

In discussing the circumstances that induced Russian business firms to take this course, the Conference emphasized, first, the ex-

⁹ The maximum of these transactions was reduced first to 1,000 rubles, and subsequently to 500 rubles.

treme delay in effecting payments on orders placed in London. Threatened by their contracts with heavy fines for arrears of payment, Russian manufacturers were forced to resort to the sale of rubles. It was therefore imperative to accelerate the necessary procedure in effecting payments abroad. Further, it was pointed out that it would be expedient to restrict imports to the articles paid for by the Credit Office and to such as could be paid for out of foreign credits actually at the disposal of Russian banks. To achieve this, it would be necessary for every consignment of goods to be accompanied by a special certificate to the effect that it complied with the rules laid down by the Credit Office.

The attention of the Conference was also directed to the problem of so-called "ruble accounts"—the collection by banks of sums in rubles due to the current accounts of their foreign correspondents, with a view to the purchase of drafts on foreign markets in contravention of the existing regulations. The Conference had also to consider the advisability of prohibiting the sale of foreign exchange by exporters. In this matter, however, the Conference did not venture on too drastic a course, for it was evident that restrictive regulations could very easily be evaded, and would, furthermore, be inimical to the interests of foreign banks. The Conference therefore confined itself to suggesting that whenever rubles were paid into the accounts of foreign correspondents of Russian banks, an explanation of the precise purpose for which the payment was made should be requested "in order to estimate the position with regard to transactions in Russian currency on foreign markets." Such control was obviously inadequate.

In pursuance of the conclusions reached by the Conference, the Credit Office, in its ordinance of 7th April 1916 instructed the banks to furnish daily records of all sums in rubles paid into the accounts of their foreign correspondents and to make inquiry, on the occasion of each payment in excess of 5,000 rubles on any one day, as to the person or firm on whose account it was effected and the purpose for which it was made. By a later ordinance, dated 26th April 1916, the Credit Office requested the Stock-Exchange Committee to inform exporters that all foreign drafts received by them must be sold to the Settlement Department through Russian banks, and must in no circumstances be transferred to Russian or foreign importers. The only

penalty imposed for failure to comply with these instructions was a threat that the support of the Ministry of Finance would be withdrawn from delinquent firms.

On 10th August 1916 the Credit Office addressed a special letter to the boards of directors of the banks, giving a reasoned explanation of the measures taken, and requesting the banks to inform their foreign correspondents of the new regulations, "in order to prevent misconceptions and accusations or complaints by foreign establishments." It may be observed that the Credit Office always acted with a caution amounting to timidity. The same letter included particulars of a further measure designed to ensure control over the exchange market. In this matter also, the Credit Office carried out a suggestion made at the conference: the banks were directed *in no case to grant credit in foreign currencies without having previously referred the matter to the Credit Office*. At the same time, the Credit Office asked for a statement of the actual position of the ruble accounts of foreign banking houses and business firms, and of the securities and the outstanding balances in foreign currencies held by them on account of Russian customers.

The Government, having at last realized the serious nature of the exchange problem, could no longer acquiesce in the obviously mistaken decision adopted by the Council of Ministers on 8th May 1915. A short time before it was overthrown by the March Revolution, the Imperial Government attempted to rectify this error, but the measures taken were not sufficiently comprehensive. At a meeting of the Council of Ministers held on 29th November 1916 (the decision of which was approved by the Emperor on 27th December 1916) the Minister of Finance, M. Bark, moved the repeal of the exemptions granted in certain cases for the export or consignment abroad—by post or other means—of Russian bank notes in sums exceeding 500 rubles per person, and proposed that the export of notes in excess of this amount should in future require special authorization by the Minister of Finance. The Minister of Finance had thus changed his policy, and the Council of Ministers adopted his motion. Strangely enough, the regulations concerning the export of Russian securities were not revised at the same time.

On the very eve of the March Revolution, the Credit Office, acting on important information received through the Intelligence Service,

decided to warn the banks against the danger of omitting to exercise discrimination with regard to foreign correspondents, some of whom might be connected with the enemy. With these instructions a fairly long list was enclosed of firms, known or suspected to be dangerous, with whom the banks were forbidden to conduct business in future. (Ordinance of 20th February 1917.) It must be admitted, however, that these drastic measures were taken far too late.

Mention should also be made of the important ordinance of 25th July 1916 dealing with the compulsory surrender, by private individuals, firms, and institutions, of foreign currency obtained by the export of certain goods, the export of which was generally prohibited, through special permits granted by the Ministry of Finance (Regulations of 4th May 1915). The absence of data does not allow an estimate of how far this measure contributed to the reinforcement of the government stocks of foreign currency. But this circular was, on the one hand, a necessary logical link in the system of the State control of the Russian Exchange market; on the other hand, it was a natural introduction to the part that the Government was eventually led to play in supplying the market with foreign currency, a subject which will be discussed below.

The Credit Office communicated to the Customs Department the rules under which foreign currency obtained by export of goods should be surrendered to the Ministry of Finance. Clause I of these regulations ran as follows: "The exporting firms which desire to export goods under embargo may be granted a permit for the export of such goods on condition that they surrender to the Ministry of Finance the whole of the foreign currency obtained in payment for these goods with the exception of the amount required for freight and other expenses connected with the export that have to be defrayed in foreign currency."

Clause II required that applications of firms for permits to export goods (which applications had to be made to the Customs Department) should be accompanied by declarations on various points and by a special document in which the firm undertook to surrender the foreign currency obtained for the goods to the Ministry of Finance, directly or through the State Bank or one of the Russian banks.¹⁰

¹⁰ The surrender of foreign currency was not required in respect of transactions completed before 1st May 1916.

Clause III extended the requirement of a special document guaranteeing the surrender of foreign currency even in the cases where, in accordance with the rules of the Ministry of Finance above quoted, no special permit was required in each particular case for the export of goods to Allied countries on board Russian or Allied ships.

Clause V read: "The settlement of the accounts for the surrendered foreign currency is effected by the Ministry of Finance on the basis of the rate of exchange of the Settlement Department on the day when the surrender took place, or the rate of exchange of the day when the obligation to surrender foreign currency was incurred; in the latter case a discount of $\frac{1}{4}$ per cent per month is allowed as commission for the insurance of the rate of exchange."

The sanction, stated in Clause VII, consisted in the forfeiture of the right to carry on export business if the undertaking to surrender foreign currency to the Ministry of Finance was not duly fulfilled and without a sufficient reason.

In due course the Provisional Government found itself faced with the necessity of devising effective measures to prevent the emigration of Russian capital, and the speculation on the export of rubles, for which opportunities were still available. The Decree of 5th June 1917 partly reënacted the measures which were already in operation, and partly extended them and made them more flexible:

I. All transfers of rubles abroad as well as the payment of rubles into the accounts of persons and institutions domiciled abroad or of their representatives in Russia, or the entering into transactions which may lead to such transfers or payments, are completely prohibited, unless the special permit of the Minister of Finance has been granted in each particular case. II. The limitation established by Section I does not apply in the case of the transfer or payment of rubles from one foreign account into another. III. The Ministry of Finance is empowered to establish a foreign Currency Clearing House (*Razchetni Otdel po inostrannoï valute*), to publish rules as to the issue of the permits referred to in Section I and to establish the maximum sum generally allowed to be transferred by one person in order to meet his payments and obligations not resulting from commercial transactions. IV. All dealings in currency may be legally entered into only through the banks whose names appear in a list approved by the Ministry of Finance. (The subsequent clauses enu-

merated the various penalties incurred by those infringing the rules laid down by the decree. And the penalty was increased if the wrongdoer was guilty of habitual breaches of the law. This clause was included in response to the general outcry against "profiteering.")

The decree of 19th June 1917 enacted that Post Offices might only accept bonds, shares, and *coupons*, exceeding 500 rubles in value on the presentation of a license from the Credit Office. The only exception made was in favor of bonds of the Liberty Loan, which the Provisional Government wished to popularize in Allied and friendly countries. Article 2 of the decree insisted on the necessity for demanding a duly signed statement from the consignor to the effect that "the bonds forwarded are not for the purpose of making payment to enemy subjects or institutions."

Experience proved, however, that even the relatively low maximum of 500 rubles gave scope for abuse of the facilities afforded: a person was strictly within the law in exporting periodically, or even daily, sums not exceeding 500 rubles. The Intelligence Service in Russia and abroad ultimately discovered that a large number of these consignments were destined to supply Germany with the Russian currency she urgently needed for her troops in occupation of Russian territory. The Minister of Finance was in favor of absolutely prohibiting the export of Russian notes or securities, even bonds of the Liberty Loan, on the ground that "special permission could always be obtained from the Ministry of Finance to export these bonds with a view to placing them on foreign markets; while their consignment abroad for the purpose of exporting capital or of obtaining foreign exchange without the authorization of the Ministry was most undesirable." The last Minister of Finance of the Provisional Government introduced a bill to this effect, which was duly passed, but did not exercise any appreciable influence on the situation, owing to the Bolshevik Revolution. This law contained the following provisions:

I. The consignment abroad by post or other means of any kind of paper money or securities, to any amount whatever, requires a special license from the Ministry of Finance for each individual case.

II. The permission to carry money or securities out of the country to a value not exceeding 500 rubles per person, does not apply to inhabitants of the border zones, crossing the frontier with special

certificates. These are permitted to carry money and securities across the frontier to the value of only 25 rubles per person per day.

An effective system of control by the Government of all transactions in foreign exchange was thus introduced in Russia only on the eve of the outbreak of civil war and of the complete collapse of her political organization.¹¹

The Government's attitude towards another aspect of the exchange problem—the importation of Russian securities—must next be considered. It was officially stated in 1917 that “the importation of bonds, shares, and *coupons* has never, up to the present time, been regulated by any special legislation.”

In any country, the problem involved in the importation of its own securities must be a very difficult one, and its solution depends on whether the country concerned is at peace or at war. Without dwelling on the aspects of the problem presented by the former alternative, it may be remarked that the inward flow of securities may either result from an exceptionally favorable balance of indebtedness, when foreigners need exchange with which to meet their liabilities; or it may be caused by a loss of confidence in the country, in which event the securities would be repatriated with a view to their sale in their country of origin. When securities are thus reimported, the balance of indebtedness tends to swing for a time against the country concerned. At a later stage, however, the process results in certain economies in the payment of interest and dividends. There exists,

¹¹ Another ordinance of the Credit Office, dated 10th September 1917 should also be mentioned, for it was the first attempt made to regulate foreign exchange transactions in the Far East. The Government, while gradually concentrating all dealings in foreign exchange in its own hands, did not pay sufficient attention to Kharbin and the zone of the Chinese-Eastern Railway. Transfers and payments effected for the account of individuals or institutions in that locality, which was looked upon as an integral part of the Russian money market, could be, and indeed were, used as channels for the export of rubles. Measures had to be taken to prevent this, and the circular ran as follows: “In interpretation of the decree of the Provisional Government dated July 5th last, concerning ‘the prohibition of remittances abroad,’ the Credit Office informs the Board (of the bank concerned) that all remittances, as well as payments in rubles to the accounts of individuals and institutions in Kharbin and in the zone of the Chinese-Eastern Railway, with the exception of government institutions and of the Chinese Railway itself, are absolutely forbidden, unless specially sanctioned by the Ministry of Finance.”

therefore, no general solution of the problem, applicable to all cases; each calls for special investigation.

When a country is at war, the problem may also present different aspects. The enormous influx of American securities into the United States, for example, was significant of the increasing wealth of the transatlantic republic and of her economic independence of Europe. The importation of securities into Russia at a time when she was becoming impoverished, was a highly complex phenomenon. Undoubtedly there existed a desire to unload securities issued by a country whose financial condition was extremely precarious. This was especially true of enemy subjects and institutions holding Russian securities, for these naturally desired to obtain the money tied up in the securities and to oblige Russia to repay the debt on her shares and bonds. The Intelligence Service discovered, for instance, that Swedes were buying or taking on commission from Germans *coupons* of Russian bonds held in Germany, intending subsequently to dispose of them in Russia.

Speaking generally, the return of her securities to Russia during the War was undesirable, firstly on account of the danger of actually paying enemy claims, and secondly because of the adverse effect on the balance of indebtedness. The first of these two considerations was fairly obvious, and it is surprising that the Council of Ministers did not impose some general restrictions on such imports at the very beginning of the War. This was another problem with which the Provisional Government had to deal.

During the whole period preceding the Revolution of March 1917 the importation of securities from abroad was regulated by instructions issued in each individual case by the Credit Office in reply to inquiries received from various institutions and, especially, from the authorities in charge of the military censorship. In this connection it is particularly interesting to note the reply given on 22nd January 1916 to a request from the Quartermaster-General of the Sixth Army for instructions with regard to the detention of securities sent from neutral countries. In the opinion of the Credit Office "Russian bonds, shares, and *coupons* are to be freely admitted into the Russian Empire only if they are accompanied by certificates from the local authorities, authenticated by Russian diplomatic or consular officers, to the effect that these securities are genuinely the property of sub-

jects or corporations of friendly or neutral nationality, and that, at the outbreak of war, they were not the property of subjects or corporations of enemy nationality." In another letter to the same addressee, dated 29th January 1916, the subject considered is the problem of the admission to Russia of bills of exchange, of which either the holders or some of the endorsers were, or were suspected to be, enemy subjects or corporations. The Credit Office directed that such bills should be divided into two groups—those consigned to banks and those addressed to private firms or individuals. Bills in the first category were to be admitted freely, for the banks had already received instructions forbidding them to note bills of enemy origin. All bills in the second category were to be detained. This solution was, in appearance, perfectly logical; but it was, in fact, hardly wise to place unconditional trust in all banks.

On 1st June 1916 the Credit Office instructed the military authorities that the restrictions imposed on the importation of securities should not in future apply to securities imported from Allied countries.

Finally, on 5th May 1917, the Provisional Government issued a general decree, of which the principal provisions were: (1) The acceptance of Russian bonds and shares from abroad by post offices, and their importation by travellers were prohibited; (2) this prohibition did not apply to securities issued during the War, nor to those consigned to banks or imported by travellers, if accompanied by certificates of origin signed by Russian consuls abroad.

The practical application of this decree raised the question of the nature of the evidence on which the State Bank could effect the actual delivery of securities received from neutral countries to the consignees. In reply to an inquiry from the Russian Commercial Attaché in Holland, the Credit Office gave instructions to the effect that securities received from neutral countries by the State Bank would be delivered to those to whom they were consigned only, on the presentation of certificates from Russian consular officers or from permanent foreign correspondents of the Ministry of Finance, stating that the securities concerned had been before the War, and were still, in the possession of Russian subjects or of subjects of Allied or neutral countries. In all cases in which it was found impossible to effect the delivery of the securities to their consignees they were to be

detained by the State Bank and the senders were to be notified. In such cases the securities detained could be returned to their consignors. It will be observed that the Government was doing its utmost to safeguard the interests of foreign holders of Russian securities, for the sake of Russian credit abroad.

The foregoing account will show that Russia was less successful than the other belligerent countries in finding methods of controlling the exchange market. For a long time she groped almost blindly for an effective course of action, passing, in the meantime, occasional measures based either on her own practical experience or, more frequently, on that of the governments of other countries. This policy certainly had an adverse influence on the ruble exchange. The great accumulation of Russian notes in foreign markets, estimated at several hundred million rubles, was in itself bound to have a depressing effect on the rate of exchange. In this, as in other problems, a solution was only found by the Provisional Government, when the Russian State was on the verge of final collapse.

The half-hearted character of the measures taken to prevent the export of Russian notes was the more unfortunate since the Government was simultaneously resorting to the costly expedient of direct intervention on foreign markets to support the rate of exchange. This aspect will be further discussed in the next section.

It may be of interest to observe, before leaving the subject, that the allocation of foreign currency by the Credit Office was effected on the basis of one of the following three rates of exchange: the "Treasury" rate, the "privileged" rate, and the "rate of the day" established by the Clearing Department. The Treasury rate, which was usually adopted when payments were made to government departments, was practically equal to the par exchange (with the deduction of a very small fee in favor of the Credit Office). The privileged rate of exchange was adopted in the case of benevolent institutions and of some private firms working for national defense. The third of the above rates of exchange was that generally applied where foreign currency was allocated for the use of the private market. The privileged rate was approximately the mean between the Treasury rate and the rate of the day. But even the rate of the day diverged considerably from that of the London Stock Exchange. In this connection it may be remarked that although the

Credit Office, in fixing the rate of exchange, could not follow the quotation of the London market, where speculation in rubles was mainly concentrated, it should not have permitted the considerable and increasing divergence between its own rate and the London rate that actually occurred. On 5th January 1917, for instance, the rate fixed by the Credit Office was 144 rubles to £10; while the London quotation was 163.5 rubles; the rate of exchange of the French franc was fixed at 52 copecks, while in Paris the franc was quoted at 62.5 copecks. The substantial difference between the official rates in Petrograd and the real quotations on foreign markets tended to make the rates of the Petrograd exchange market largely fictitious.

It should, however, be mentioned that the Russian Government endeavored to give a more solid foundation to its foreign exchange policy by creating a real basis for the rates at which business in exchange was transacted. At the end of 1916, in virtue of the special decisions of the Council of Ministers of the 23rd November and 9th December (to which Imperial Assent was obtained on 22nd December 1916), the Minister of Finance was authorized to reopen the Securities Department of the Petrograd Stock Exchange for business conducted in accordance with special regulations, of which the principal feature was the absolute prohibition of any forward-looking transactions.¹² When the Stock Exchange was reopened, the "private exchange meetings" at the Siberian Bank, to which the public had assumed a hostile attitude, ceased. During the March Revolution the Stock Exchange was again closed and has never been reopened.

4.

In order to complete the picture of the government control of the exchange market it is desirable to describe in outline the gradual growth of a centralized system for supplying foreign drafts to those who needed them. The Settlement Department, which, as stated above, was formed in January 1916 and attached to the Credit Office, eventually developed, under the continuously increasing demand for foreign currency and the inadequacy of the supply, from

¹² All references to ordinances and orders in this chapter are based on the materials available in the Archives of the Russian Financial Attaché in London (Minutes 211 and 212) and on the *Raspozyazheniya Ministerstva Finansov* (*Orders of the Ministry of Finance*) published by *Vestnik Finansov*.

an organization for the systematic distribution among the banks of the free reserve of currency available for the market, into an organization providing this market with currency on behalf of the Government. This state of affairs was exceedingly unsatisfactory. The members of the Settlement Department, in which the Government was represented only by the delegates of the Ministry of Finance, had no qualifications for dealing with the complicated problems, often involving important points of principle, that were unavoidably raised in connection with the allocation and distribution of the stocks of currency held by the Government. The structure of the Department was adapted rather to routine work. A special committee was therefore formed, as early as 1916, to deal with applications for the allocation of foreign currency for commercial and industrial purposes. The applications of private persons continued to be considered by the Settlement Department, but in 1917, when the number of these applications greatly increased, they were transferred to a Special Committee, and the Settlement Department was accordingly relieved of all administrative functions.

The Committee for the allocation of foreign drafts to meet the needs of commerce and industry was originally attached to the Ministry of Finance. Its duty was to apportion the currency available for private needs in such a manner as to meet the most urgent demands, and to make sure that the allocations granted were actually expended on the purpose for which they were intended and which was approved by the Committee. The Committee included representatives not only of the Ministry of Finance, but also of the Ministry of Commerce and Industry. It was hindered in its work by the inadequate supply of foreign monies at its disposal. This mainly consisted of the monthly credit allowed to Russia by the British Government (£2,500,000), and the Committee had accordingly to make a selection among the applicants. As was stated above, the composition of the Committee was purely bureaucratic and it did not include representatives of commerce and industry. The Ministry of Finance, nevertheless, endeavored from the outset to organize the allocation and apportionment of foreign currency in such a manner as to entrust the actual settlement of each particular problem or application to a competent government department or to some body of experts representative of the particular trade involved. For this

purpose the Ministry of Finance made an extensive use of the collaboration of the very numerous trade associations which came into existence during the War in the form of various committees (for instance, the Committee for the Supply of Raw Material to the Textile Industry, the Committee on Woolen Industry, the All-Russian Union of Tanners, etc.).

The procedure for the allocation of foreign drafts underwent a certain alteration in the summer of 1917, when the whole work was transferred to a special committee attached to the Ministry of Commerce and Industry. This Committee was constituted on a much broader basis than the former committee attached to the Ministry of Finance. It included, in addition to representatives of various government departments, among which was the newly created central administration for the supply of foreign goods, delegates from various committees and other bodies representing the interests of commerce and industry. After these changes, the rôle of the Ministry of Finance in the allocation of foreign drafts to meet the needs of commerce and industry was limited (apart from the share taken by the representative of the Ministry of Finance in the work of the new Committee) to the actual delivery of foreign drafts in accordance with the decisions of the Committee, *i.e.*, to the purely technical side of the work.

The Settlement Department, as was stated above, continued for a long time to deal with the applications for foreign drafts for personal requirements. Applications for small amounts (not exceeding originally 2,000 rubles, later 1,000 rubles, and finally, 500 rubles per month per person) were met by the banks direct, without the preliminary authorization of the Settlement Department, and the funds required for this purpose were granted to the banks through the Settlement Department of the Ministry of Finance. All applications for an amount exceeding that mentioned above were forwarded by the banks with the necessary explanations to the Settlement Department and the banks were granted foreign drafts only in respect of such of these applications as were considered justified.

The number of applications for the allocation of foreign drafts for personal requirements was greatly increased after the Revolution. Whereas, before the Revolution applications for foreign drafts were usually made only when these drafts were actually needed—for

instance, for the transfer of money to members of the family residing abroad, etc.; now the unsettled conditions of the country and the still more uncertain prospects of the future created a general desire to obtain foreign drafts and to make provision abroad. This tendency was further emphasized by the departure of a large number of foreign residents, the majority of whom were men of considerable wealth, and who desired to convert their rubles into foreign currency before leaving the country. In these new circumstances the allocation of foreign drafts for personal requirements could no longer be entrusted to the Settlement Department, which was incompetent to deal adequately with the new and varied problems upon which it was called to pass decisions and indeed incapacitated by its very constitution from doing so. It was therefore decided to appoint a special committee for the allocation of foreign drafts for private requirements, which should work on the same lines as the committee for the allocation of foreign drafts to meet the requirements of commerce and industry. The Committee had the duty, on the one hand, of investigating in detail the applications submitted to the Ministry of Finance, and on the other, of satisfying itself that the sums granted were actually spent on the purposes for which they were intended.

This Committee, which was appointed in the spring of 1917, was shortly reorganized as a special "Department for the transfer of money and securities abroad," as the number of applications for the transfer of money for private requirements was rapidly and steadily growing. This Department had a special organization and a numerous staff, but the full development of its activities was prevented by the accession of the Bolsheviks to power.

The allocation of foreign drafts to government departments and for national purposes, *i.e.*, for purposes connected with national defense, was made subject to special regulations. The share of the financial resources of the country devoted to these purposes was by far the largest and considerably exceeded the amounts allotted to the requirements of the market. Nevertheless the applications for foreign drafts sent in by the departments concerned with national defense invariably exceeded the supply at the disposal of the Government. These applications therefore before they could be met had to be subjected to a careful scrutiny, criticism, comparison with other applications, valuation, and selection. The Ministry of Fi-

nance was obviously unable to deal with this task, and it was entrusted as early as October 1915 to a special interdepartmental committee—the Committee for the registration and apportionment of foreign drafts or the Foreign Drafts Committee (*Valutnaya Komissia*), known for convenience as the *Valko*.

The Foreign Drafts Committee included representatives of the War Office and the Admiralty, the Ministry of Finance, the Ministry of Transport, the Ministry of Commerce and Industry, the Ministry of Agriculture, the State Audit Department, the Russian Red Cross, and the Unions of Zemstvos and Towns. The Committee had its own office and a large staff which conducted the whole preliminary work and gave effect to the decisions of the Committee. The Committee itself met three or four times a month to discuss the applications and demands that had accumulated since its last meeting. It had to sanction all the allocations of foreign drafts in connection with orders placed abroad for the purpose of national defense by the Government or by private firms, and in general all the allocations of foreign drafts to government departments. Public organizations and government departments made their applications for the allocation of foreign drafts through their representatives on the Committee, while factories and works—whether privately owned or belonging to the Government—were required to make their applications through the department which had placed the order with them. The Committee therefore had to deal only with central institutions, and the applications submitted to it had already been checked by these very institutions; which, of course, simplified the work of the Committee itself. There were no definite regulations for the allocation of foreign drafts, and the Committee had to shape its policy in accordance with the very general indications given to it by the Special Council for National Defense. It may be stated, as a general rule, that the decisive factors in the allocation or refusal of foreign drafts in each particular case were the possibility or impossibility of placing the order in question within the country, and also considerations of its necessity or utility from the point of view of national defense.

During the early period of the work of the Committee, immediate action was taken when an application had been granted and the sum allocated was handed over without delay to the institution or concern. The payee was only required to deposit a corresponding sum

in rubles with the State Bank or with the Treasury. The executive side of the operation was always placed in the hands of the Foreign Department of the Credit Office, which gave a telegraphic order to the banking house of Messrs. Baring Brothers and Co., in London, instructing them to effect the payment. Later on, the procedure for the allocation of foreign drafts for the needs of national defense and of the Treasury was materially altered, as a result of a closer supervision established by the British Government over the war orders of Russia and over credits opened to her. Foreign drafts were no longer remitted to the applicant immediately after the payment of a deposit in rubles, as was previously done, but the amount allocated to the applicant by the Committee was only "registered," *i.e.*, it was kept at the disposal of the firm or institution conditionally. On obtaining this grant from the Foreign Drafts Committee, the applicant had to take further steps in order to obtain the permission of the British Government to place the order; this was done through the Russian Government Committee in London.

In the spring of 1917 the Foreign Drafts Committee was reorganized and received the name of "Central Administration for foreign supply" (*Glavzagran.*). The new institution had a much wider province than the late Committee and it had to deal, among other questions, with the allocation of available shipping.

It is necessary to observe, that the allocation of foreign drafts for the requirements of the market and the allocation for those of the State (national defense) differed not only from the point of view of procedure and of the institutions which dealt with the matter, but also from the point of view of the sources from which these demands were met. The demands of the State, which chiefly related to payments on orders connected with national defense, were met from the credits allowed to Russia by the Governments of England, France and, later on, by the United States as the result of special financial agreements which were signed during the War. The order in which these credits should be used was strictly defined in the agreements and, for instance, as regards the credits granted to Russia by the British Government, was made subject to preliminary sanction of each proposed payment by the Government of Great Britain.

The sums assigned to the satisfaction of the requirements of the market were in a very different position. To begin with, these sums

were very small, as compared with the amounts required for the needs of national defense. At the same time, they were derived from numerous sources. They represented, first of all, the balance of various accounts of the Ministry of Finance as they stood at the beginning of the War. They were increased later on as a result of credit operations specially intended for the benefit of the market. For instance, a special credit of £7,500,000 in respect of advances on goods was opened in England for this purpose. It took the form of a transaction between Russian and English banks, but the proceeds were handed over to the Ministry of Finance for reapportionment. In France the sum of 500,000,000 francs was obtained for the same purpose by an agreement between the Bank of France and the Russian State Bank. And lastly, the Ministry of Finance obtained in the United States, by means of the so-called "report" transactions, the sum of \$50,000,000. The third source from which the demand of the market was met was the so-called "free credit" allowed to Russia by the British Government, *i.e.*, the £2,500,000 a month allotted for this purpose in accordance with the financial agreement of 27th October 1916 out of the total monthly credit of £25,000,000. The Ministry of Finance had a free hand in the disposal of all the sums enumerated above (including the £2,500,000 a month granted by the British Government), in spite of the fact that they were intended to meet the outstanding obligations of the private economic interests of the country and, in particular, to repay the pre-war debts of Russian banks to foreign financial concerns.¹³

5.

The principal foreign market for Russian rubles during the War was London, and it was there that, during a considerable period, the Ministry of Finance intervened in the exchange market in favor of the ruble through the banking house of Messrs. Baring Brothers. The official *communiqué* concerning the agreement reached by the three Allied Ministers of Finance, Mr. Lloyd George, M. Ribot, and M. Bark, on 4th February 1915, contained a statement to the effect that the necessary measures had been taken to maintain the ruble at par of exchange with the currencies of the other two

¹³ For the information contained in this section the author is greatly indebted to the courtesy of M. A. E. Lohmeyer.

Allies. In the first place, the intention was to facilitate as far as possible the export of goods from Russia. Subsequent events, however, frustrated all efforts in this direction. Meanwhile, the supply of foreign drafts in the open market was hopelessly inadequate to meet the requirements of industry and trade, and this inevitably exercised a depressing influence on the value of the ruble. As the war-time economic organization of the country developed, the conditions of life insistently demanded that the Government should assume complete control of all dealings in foreign exchange; the Government, however, did not possess the necessary means for the purpose.

In his Note of 3rd November 1915 to the British Secretary of State for Foreign Affairs, the Russian Minister for Foreign Affairs pointed out that, to ensure the successful prosecution of the War, it was imperative to take effective measures to support the rate of exchange of the ruble by providing the Russian Government with the credit required by industrial firms transacting business in the open market. Negotiations entered into with the Bank of England to secure that the latter should accept bills drawn on it had so far yielded no positive results. While requesting that the solution of this pressing problem might be accelerated, the Russian Government insisted on the allocation, from the credits granted to Russia by Great Britain, of the sum of two millions sterling a month for free disposal in meeting private demands for drafts. The Note asserted that the heavy fall in the rate of the ruble during the preceding two weeks, when it had reached 151 to £10, was not due to any material cause, but to the fact that the Russian financial administration found it impossible to meet even the small demands of the open market. The Memorandum of 6th November 1915, on the same subject, while repeating these considerations in detail, emphasized the fact that the free credit of two millions sterling which was requested was intended not for the actual support of private industry and trade, but primarily to enable the Government to obtain control over the exchange market. This was a precisely similar operation to that undertaken by the British Government in the United States for the purpose of supporting the rate of exchange of the pound sterling. The British Government expressed its willingness to accommodate the Russian Ministry of Finance and agreed to put at its disposal monthly the credits required in two instalments of one million sterling each. The importance of finding a solution of this problem was once again re-

called in the Russian Note of 15th January 1916:¹⁴ "The Russian Ministry of Finance considers it a matter of the highest importance, from a political as well as a purely financial point of view, to bring back the rate of exchange, if possible, to 135 or thereabouts, and not to permit the ruble to be further depressed." If measures to this effect could be taken, Russian public opinion would receive unmistakable proof that England was helping to consolidate the Russian finances. Meanwhile, owing to delay in taking the necessary steps, the ruble fell as low as 163 to £10.

The letters of the former Director of the Credit Office, M. Niki-forov, dated 23rd February and 2nd March 1916 to his deputy, who was then in London, contain interesting information as to the extent of the demand for foreign currency in the open market, which amounted annually to £10,500,000. In the same letters, M. Niki-forov requests his deputy to insist on the British Government's taking "measures to prevent the sale of rubles on the London market," and to induce it to allow the necessary credits to be provided by the sale of Russian Treasury bills in the open market in London.

The credits granted for the purpose of intervention in the market enabled the Russian Government to offer sterling drafts. According to the Note of 8th March 1916 the sale of drafts amounting to £650,000 was sufficient to reduce the rate of exchange by 3rd February from 163 to 149 rubles. The same Note, however, emphasized the inadequacy of the measures hitherto taken to meet the continually increasing demands of the Russian market for sterling drafts, which by that time had reached a figure of £24,000,000 as against credits of £7,500,000. The Note further stressed the fact that the extensive sales of rubles in London, partly accounted for by speculation and the needs of private industry, were also due to the great delay in effecting payments to contractors out of British credits granted to Russia.

In April 1916 the Foreign Branch of the Credit Office opened a special account (*Compte Deux*) with Messrs. Baring Brothers, and also a separate "intervention account" (*Compte Intervention*). In addition to other sums, the £2,500,000 received monthly from the

¹⁴ All quotations in this section are taken from the materials in the Archives of the Russian Financial Attaché in London.

British Treasury was paid into *Compte Deux*. As a result of urgent representations, this amount was increased to four millions sterling, £1,500,000 being allotted to the Intervention Account for the purpose of buying rubles in the London market through Messrs. Baring Brothers.

In 1917, when the Revolution had caused a general disorganization of the Russian money market, the ruble began to fall very rapidly, and the successive Ministers of Finance of the Provisional Government pressed in vain for an increase in the credits granted for purposes of intervention on the market. In July they were actually reduced to three millions, only £500,000 being allocated to the Intervention Account; in August they were further reduced to two millions, and for the month of November, in which the Bolsheviks came into power, the proposed allocation did not exceed one million sterling.

The available information is incomplete, and many documents are inaccessible; it is therefore impossible to indicate the exact sum spent on intervention during the period under review. According to the reports submitted by M. Ermolaev, Russian Financial Attaché in London, to the Director of the Credit Office, about £26,800,000 were placed to the credit of *Compte Deux* and the Intervention Account (*Compte Intervention*) between 2nd April 1916 and February 1917. The total sum expended on intervention down to 1st October 1916 exceeded £3,000,000; subsequently, when the British Treasury was advancing four millions sterling a month, the Intervention Account was credited monthly with amounts varying from £1,000,000 to £1,500,000. Various other sums were placed to this account, for instance, one million sterling, received on 1st July 1917 through the British Ambassador, Sir George Buchanan, for flax exported to England. The total amount of the Intervention Account therefore reached the imposing figure of over ten millions sterling.

The ineffectual nature of the Russian Government's intervention on the exchange market, and the financial difficulties of the British Government, made the British Treasury extremely cautious in allotting credits for this purpose. The extensive correspondence on the subject shows that the British Government constantly emphasized the inadequacy of Russian legislation concerning the import of luxuries and the export of securities. The efforts of the Provisional

Government to rectify these defects have already been described; and attention was drawn in the above-mentioned correspondence to the improvements achieved; the Provisional Government pointed out, however, that its efforts had constantly been frustrated by lack of support from the British Treasury.

American speculation in rubles at last became so extensive, that the question arose of intervention on a large scale in the New York market, using for this purpose the credits promised to the Russian Government abroad. In reply to the complaint of the British Treasury that money was being squandered on the useless buying of rubles, the Russian Financial Attaché in London thus defined the purpose of the policy of intervention: "It is certainly impossible to bring back the rate of exchange to a figure below 200 and to keep it artificially at the same level. Intervention on the London market has, however, a different object, and aims only at preventing abnormal speculation and the sudden fluctuations which cause such harm both to Russia and to this country, and which could be checked without difficulty by the expenditure of the comparatively small amount of £1,500,000 a month."¹⁵ In the opinion of the Russian Ministry of Finance, the sum of only four millions sterling per month would have sufficed to exercise effective control over the London rate of ruble exchange. The daily sales at one time reached about 6 million rubles, but after the issue by the Provisional Government of the decree of 19th June 1917 they declined to 3 million rubles. It was therefore expected that, if one million rubles could eventually be diverted to the American market, the daily sales would amount to about 2 million rubles.

In an interesting report to the Director of the Credit Office, dated 19th May 1917 the Financial Attaché states that between 10th May and 19th May of that year, Messrs. Baring Brothers had bought up practically the whole of the rubles offered in the market—27 million, but that the rate of exchange improved only to 170. This failure was attributed, in the first place, to the continually increasing export of rubles through the Far East and Persia—the only outlets still open; secondly, to lack of confidence in the political stability of Russia; thirdly, to the continued importation of luxuries through

¹⁵ Letter of M. Ermolaev to the Secretary of the British Treasury, dated 25th September 1917.

Vladivostok; and finally to speculation on the part of certain banks, particularly the Anglo-Russian Bank in Petrograd.

The reference to Persia requires some explanation. In accordance with the general plan of military operations, Russia undertook to maintain a special Army Corps in Persia. For the maintenance of that Corps considerable sums of money had to be remitted monthly to Persia. The exchange of Russian paper rubles into Persian currency was guaranteed by the Russian Loan and Discount Bank for Persia and by the Imperial Bank of Persia, but it was not always easy to coördinate the operations of these two establishments. Russia undertook to provide a certain amount of silver for the coinage of Persian coins, and even to coin them at the Russian Mint. Since, however, she produced very little silver, she was compelled to purchase it abroad, which proved difficult owing both to the shortage of foreign credit at her disposal and to the keen competition on the market. Moreover, measures were taken by the Persian Government to prevent an excessive increase in the circulation of Persian coinage in the country, since this tended to raise the cost of living. In consequence the paper ruble soon began to depreciate. The parity of exchange between Russian and Persian money was 175 rubles to 100 *tomans*, but in May 1916 the rate rose to 385, the paper ruble having depreciated in Persia by nearly 55 per cent of its face value, while in other countries the depreciation did not exceed 35-40 per cent. Attempts made to establish a compulsory rate of exchange at 307 rubles to 100 *tomans* proved a failure, and in 1917 the position became untenable. According to official reports the Bank of Persia, owing to the prohibition by the Persian Government of remittances in rubles, refused to buy rubles from the Russian troops and also refused a request from the Commander of the Russian Corps for credit to the amount of 10 million *tomans*. It therefore became necessary to abandon the principle to which the Russian Government had hitherto adhered, and to permit the Bank of Persia to transfer rubles to the account of the Credit Office in London, in exchange for sterling. The Russian Government pressed the British Treasury to provide a special credit for intervention, but the application was refused. Meanwhile, the purchase of rubles by the Bank of Persia was continually increasing: from 2 million rubles a week it rose to 3-4 million in August 1917. There was also a continual increase in the expenditure on intervention; between 10th August and 28th Sep-

tember, over £554,000 were spent on the purchase of 14 million rubles; while between 29th September and 25th October, 28.7 million rubles were purchased for about £657,000. When the funds available for intervention were practically exhausted, and nothing had been achieved, the Russian Government decided to approach the British Treasury with a demand that it should allot the sums necessary for the maintenance of the Russian expeditionary force in actual Persian currency, to the amount of 15.6 million *krans* a month, instead of purchasing rubles in accordance with previous practice. The British Government, after some hesitation, yielded to the threat of the Provisional Government to withdraw the troops if the request were refused, and agreed to allot the necessary credits.

The foregoing account has shown that intervention on the exchange market cost over ten millions sterling, but failed to bring about any marked improvement in the situation. As a matter of fact, prolonged intervention on a large scale is, practically speaking, impossible. It is a costly expedient, which is, however, justifiable in exceptionally critical circumstances as a means of preventing extreme fluctuations in the rate of exchange. In this case conditions were especially unfavorable owing to the Government's procrastination in taking steps to gain control over the exchange market; before this control had been established, very large quantities of rubles had already been exported through various channels. The most complete control over the exchange market, however, could hardly have saved the ruble from collapse, for the Government was short of foreign credits and consequently unable to meet the demand for drafts. The necessity for permitting the sale of rubles abroad would have arisen in any case.

It may, however, be assumed that if the expenditure involved had deterred the Government from its policy of intervention, the fluctuations in the rate of exchange of the ruble in foreign markets would have been far more violent.

CHAPTER IV

THE FATE OF THE RUSSIAN GOLD RESERVE

IN the preceding chapters we have seen that at the outbreak of the War Russia held a very large gold reserve against the notes in circulation. The gold reserve of the Russian State Bank was inferior to that of only one central bank of issue in Europe—the Bank of France. On 1st July 1914 the value of the gold in the vaults of the State Bank reached 1,599.7 million rubles (£168,400,000), while including gold held abroad it amounted to 1,743.5 million rubles (£183,500,000). Gold balances held abroad on account for the State Bank and the Treasury could not, however, be brought to Russia; with the exception of a comparatively small sum irrecoverably lost in Germany, they were used to defray various expenditures in Allied countries. The study of the changes which took place in the gold reserve during the War must therefore be confined to the portion actually held in Russian territory.

At the beginning of the War, Russia, in common with all the belligerent countries, appealed to the patriotism of her people to surrender their gold to the State Bank, promising in return certain facilities with regard to transfers abroad. The practical results of the appeal were inconsiderable, mainly owing to the fact that the actual quantity of gold coinage in circulation was comparatively small, amounting in July 1914 at most to 463.7 million rubles. The officials responsible for this estimate considered it exaggerated. Further, the bulk of the gold in circulation was hoarded by well-to-do peasants. The failure was also partly due to the administration of the State Bank, which refused to dispense with certain tiresome formalities before accepting gold coins. This obstructive policy even led to questions in the State Duma. It is undeniable, however, that the failure was in some measure due to the fact that patriotic feelings were not yet sufficiently aroused. By the time that some of the technical difficulties had been removed, the paper ruble had begun to show signs of depreciation, and the surrender of gold coins would then have involved a certain loss. Later still, the establishment of a system of premiums on gold delivered to the State put an end to all hope of the further surrender of gold coins; for it was obvious to

the meanest intelligence that it would be much more profitable to melt the gold and sell it as bullion, at a premium of 30 to 45 per cent, than to surrender the actual coins. It is obvious that the Government could not formally establish a premium on gold coins without thereby acknowledging the depreciation of the paper ruble. The psychological effect of such a measure would certainly have proved far more detrimental to the country's currency than the failure to increase the gold reserve by a few problematic millions of rubles.

Under these conditions, the principal means of increasing the gold reserve lay in the purchase of gold from the producers. The latter were under no direct obligation to deliver gold to the Crown, and the Government, therefore, could not count on obtaining possession of the whole internal output. Part of the gold produced was disposed of on the market, and it was practically impossible to prevent the export of a portion, though this was in direct contravention of the Ukase of 15th November 1914. As a matter of fact, however, this source of supply was unfortunately drying up, owing to war-time conditions; after the Revolution it practically ceased. The figures below, although not absolutely accurate, indicate the gradual decline in the production of gold.¹

Production of gold in Russia.

	Urals	West Siberia	East Siberia	Total
		(in pounds of 16 ounces)		
1913	23,660	7,230	103,250	134,140
1914	19,390	7,410	119,670	146,470
1915	6,350	3,970	95,690	106,010
1916	8,080	2,380	56,500	66,960
1917	2,850	1,620	63,620	68,090
1918	10,190	1,130	34,490	45,810
1919 (approximately)	880	850	13,030	14,760
1920 (approximately)	430	55	3,340	3,825

¹ Figures down to 1916 are taken from *Obyasnitelnaya Zapiska k Rospisi na 1917 god* (*Explanatory Memorandum to the Budget Estimates for 1917*), by the Minister of Finance. Those for 1916 and the subsequent years are from an article by the former Deputy-Minister of Finance of the Omsk Government under Admiral Kolchak, V. I. Novitsky, *Le Stock d'or de la Russie*, in the collection *La Dette Publique de la Russie*, Paris, 1922.

The following figures show the value of the gold extracted in Russia:

	<i>Millions of gold rubles</i>	<i>Millions of pounds sterling</i>
1913	78.4	8.25
1914	86.7	9.18
1915	63.3	6.60
1916	42.2	4.44

Many of the Russian gold-mines were worked by primitive methods, in which manual labor predominated. The mobilization of some of the miners and the migration of others to industries offering easier work and higher wages therefore caused a marked decrease in the production of gold. Moreover, the increased price of food, machinery, and other commodities and the difficulty of transporting them to distant localities induced many of the mine-owners to confine their activities to the exploitation of the richest veins. A further cause of the heavy fall in the gold output of the Urals was the impossibility, under war-time conditions, of effectively applying the mechanical and chemical processes used in this district for the extraction of gold.

More important still, the Government's failure to adopt a constructive policy towards gold-mining in peace-time bore fruit during the War. It would, however, be unfair to suggest that the Government remained indifferent to the decline in the production of gold. On 5th October 1915 a special Committee on the Gold-Mining Industry was appointed under the auspices of the Ministry of Commerce and Industry. Upon the recommendation of that committee premiums were offered on gold delivered to the Crown, and, by a law dated 13th May 1916 the customs duties on certain machinery, appliances, and spare parts required for gold-mining were abolished. The Committee also proposed to undertake geological surveys in various parts of Siberia, and evolved a scheme for the State purchase of all the gold produced in Russia, in order to prevent it from being smuggled out of the country. The organization of a special Society for the encouragement of gold-mining in Russia was also mooted. Among the measures resolved on, the provision of increased credit facilities for the industry by the State Bank appeared likely to yield the best results. It was proposed to grant larger advances on the security of gold, and to take into account the premium on

gold, such machinery as had been purchased, and other collateral securities. It was also decided to grant credit facilities to individual purchasers of gold, provided they undertook to deliver the metal to the State Bank. Finally, certain concessions with regard to the formalities connected with advances on the security of bills were made to owners of gold-mines, so that the industry might be more easily provided with the resources necessary for current expenditure. The statistics given above, however, show that these measures failed to effect any improvement in the condition of the gold-mining industry.

The gold reserve of the State Bank, to which no adequate addition of metal was made during the War, varied considerably in amount. At times, the Government was compelled to draw on it for certain foreign transactions, for the Russian State Bank, like the Bank of France, was called upon to take a considerable part in strengthening the position of the Bank of England. The British Government agreed to place large credits at the disposal of the Russian Treasury on condition that these were secured by a considerable sum in gold, which was to be shipped to England for the purpose. As a result of this and other operations,² the gold reserve in the vaults of the State Bank was considerably depleted. The decrease in the gold reserve is shown in the following table:³

	<i>Thousands of rubles</i>	<i>Thousands of pounds sterling</i>
16th July 1914	1,630,658	171,649
1st January 1915	1,558,250	164,026
1st January 1916	1,613,016	169,791
1st January 1917	1,474,858	155,248
16th October 1917	1,295,225	136,339

The return from which these figures are taken also shows large amounts under the heading "Gold held abroad and foreign drafts":

	<i>Thousands of rubles</i>	<i>Thousands of pounds sterling</i>
16th July 1914	140,736	14,814
1st January 1915	170,058	17,900
1st January 1916	648,172	68,229
1st January 1917	2,149,682	226,282
16th October 1917	2,308,648	243,016

² For details *see supra* pp. 302 *sqq.*

³ Figures taken from the return of the State Bank, published on 16th October 1917.

There was no justification for including these amounts in the gold reserve, on the assumption that they were only held abroad temporarily. They consisted partly of certain special credits and partly of sums definitely allocated to specific purposes, and they could in no case be regarded as cover for the note issue of the State Bank. The peculiar and erroneous meaning frequently attached by the Ministry of Finance to the term "gold reserve abroad" has already been discussed in the introductory chapter. It would be correct to estimate the gold reserve of the State Bank at the cessation of military operations at about 1,300 million rubles (£137,800,000), so that a very considerable stock of gold passed into the possession of the Bolsheviks.

CHAPTER V

CONCLUSION

It appears from what has been set out above that the value of the Russian ruble diminished by about three-quarters during the War and the cataclysm brought about by the Revolution. If we leave aside some particularly unfavorable moments in the life of the ruble, it may be maintained that at the advent of the Bolsheviki its value fell to 20-25 gold copecks with a strongly marked tendency to further decline. It is idle to conjecture what would have been the fate of Russian currency if political events had followed a smoother course. But one proposition may, in the light of the after-war history of the monetary system of other countries, be considered as certain: the depreciation of the ruble had gone so far that a further depreciation was unavoidable during the period of the liquidation of the War; moreover, the dislocation of the whole economic and financial system of the country had reached too advanced a stage to allow any hope of restoring the ruble to its full gold value and of resuming the exchange of bank notes for gold at their nominal rate. The official recognition of the depreciation of the paper ruble ("devaluation") was an inevitable consequence of the conditions created by the War. Whether it should be accompanied by a reduction of the amount of the gold in the standard coin (a measure previously adopted by Count Witte) or not, is, naturally, a *quaestio facti*. It must also be borne in mind that even if the economic and political machinery of Russia had avoided the complete collapse which accompanied the advent of the Soviets, the restoration of normal currency conditions would have been exceedingly slow; the experience of western Europe has clearly shown with what pain and difficulty the finances and whole economic system of a country recover from the crippling effects of the Great War. But the history of Russia was doomed to follow another course; all the elements of the economic life became involved in a revolutionary process of exceptional violence, which led to their utter ruin. The monetary system completely collapsed; the paper ruble, issued under various names, was deprived of almost its last vestige of purchasing power, and the confusion created by the disappearance of a standard of value generated a

strong feeling in favor of the return to the gold standard. This desire was perceived by the Soviet authorities and diverted in a direction which appeared the most acceptable to the new Government but which presented considerable difficulties and complications. The survey of the interesting process by which the Russian monetary system has been restored remains outside the scope of this investigation.

The attitude of various social and business circles and particularly the attitude of the trading and industrial community towards the problem of currency in Russia during the War may present a certain interest. This attitude was reflected in the activities of the legislative chambers and also exercised an indirect influence upon the authorities through the Press and through petitions submitted to the Government by various public organizations. Although complete accord between the Government and public opinion was never reached during the War, it would be a mistake to believe that the latter was utterly unable to exercise pressure upon the Government. What aspect of the currency problem attracted the attention of the press and particularly the attention of the financial papers published for the use of the business community?

It is unquestionable that public opinion was genuinely anxious about the condition of the currency and the danger presented by its depreciation, and although it was generally recognized that the use of the printing press for the purpose of meeting the burden of war expenditure was inevitable, it was nevertheless urged that due care should be exercised in the exploitation of this source of revenue. On the one hand, therefore, the press occupied itself with the discovery and suggestion of new normal sources of revenue, with the reorganization of those already existing and with various kinds of loans; on the other, it jealously followed the changes in the ratio between the gold reserve and the volume of bank notes in circulation and saw in the decrease of this ratio a danger to the possibility of restoring the convertibility of paper rubles into gold immediately after the end of the War. This jealousy will appear fully justified if we remember the history of the Russian monetary system and the relatively recent establishment of a firm currency. At the beginning of the War, its probable duration was greatly underestimated and it was thought desirable that immediate measures should be taken for the restoration of the convertibility of paper rubles.

In this state of public opinion the removal of a large section of the gold reserve to England produced a most unfavorable impression, which was manifested in newspapers of every political shade by articles betraying the anger or, at least, the bitter disappointment provoked in Russia by the action of the Allies. The *Russkya Vedomosty*, a very influential liberal paper, described the removal of the gold reserve as "inadmissible." In its opinion: "the preservation of the gold reserve of the State Bank is exceedingly important at the present moment when it has become necessary to make extensive use of the printing press and when the exchange of paper rubles for gold has been temporarily suspended. The restoration of the convertibility of paper rubles into gold, which should be effected immediately after the end of the War, requires the maintenance of the gold reserve at its present figure. The suspension of the convertibility of bank-notes was itself explained as a measure calculated to maintain the gold reserve." Statements of this kind were, of course, to a large extent unfounded, and were due to a misunderstanding of the financial conditions of Russia and her Allies. *Promishlennost i Torgovlya*, the official organ of the Union of Producers, wrote as follows: "It may be possible, of course, to find an adequate explanation for the measure that has been adopted, but we sincerely hope that the shipment of gold may not be repeated." At the same time, the Press insisted that England should afford financial assistance to Russia, in the firm belief that the resources of the former were inexhaustible. The continuous rise of the foreign exchanges, which was among the most burning questions of the day, was considered as quite intolerable in view of the transfer of a part of the gold reserve abroad. The *Novoe Vremya*, a paper closely associated with government circles, was unmeasured in its abuse of Great Britain.

In the interests of the ruble, a campaign was started in the technical press in support of the gold-mining industry, which was necessarily working under very abnormal conditions. It is worth noticing that even during the first months of the War it was suggested that the price paid for gold by the Treasury should be increased by 10-12 per cent. The reduction of taxes on the industry was also advocated, as well as direct assistance by the organization of a special bank endowed by the Government.

Apprehension as to the future of the ruble and mistrust of the financial policy of the Government grew stronger, while the prospect

of an early termination of the War receded. The clause of the agreement concluded between M. Bark, the Minister of Finance, and the British Government was subjected to severe criticism. *Promishlennost i Torgovlya* described the method adopted as the "arcadium of the Ministry of Finance." A real outburst of anger was provoked by a bill introduced at the beginning of 1916 in the Duma by the Minister of Finance, authorizing an unlimited issue of paper rubles guaranteed by the short-term Treasury bills. The main reason adduced in support of the bill was the desire to avoid frequent changes in the legislation regarding the issue of paper money, as calculated to produce public alarm. *Promishlennost i Torgovlya* remarked that "public opinion is fully aware of the necessity of recurring constantly to the use of the printing press and, indeed, feels the regrettable consequences of this necessity, which manifest themselves in the continuous rise of prices"; nevertheless, in the opinion of the paper, the proposal of the Minister of Finance might produce only harm, by making it difficult for the public to ascertain the real state of affairs.

If in 1915 only very few papers (*e.g.*, *Rech*, published by the Constitutional-Democratic party) dared to point to inflation as one of the chief causes of the high cost of living, in 1916, on the contrary, the press made no attempt to conceal from their readers the true state of things. But simultaneously with these warnings, certain newspapers undertook a campaign in order to popularize the views on currency advocated by Mr. Knapp; they were assisted in this endeavor by prominent Russian economists, among others by Prof. M. J. Tugan-Baranovsky in *Rech*. The necessity of a gold basis for currency was challenged, and, accordingly, a less serious view was taken of the Government's manipulation of the gold reserve. Even *Promishlennost i Torgovlya*, which had always maintained an uncompromising attitude on the subject of the gold reserve in the interest of future convertibility, found it possible to lend its support to the new movement (No. 47, 1916): "The whole of our policy of accumulating a gold reserve requires to be revised, in connection with the new proposals concerning the future of gold after the War."

Unfortunately, the tendency to protect private interests may be traced in the financial papers down to the very last moment. For instance, the very natural and necessary policy which aimed at the cen-

tralization and control of the exchange market by the Government met with a considerable amount of criticism.

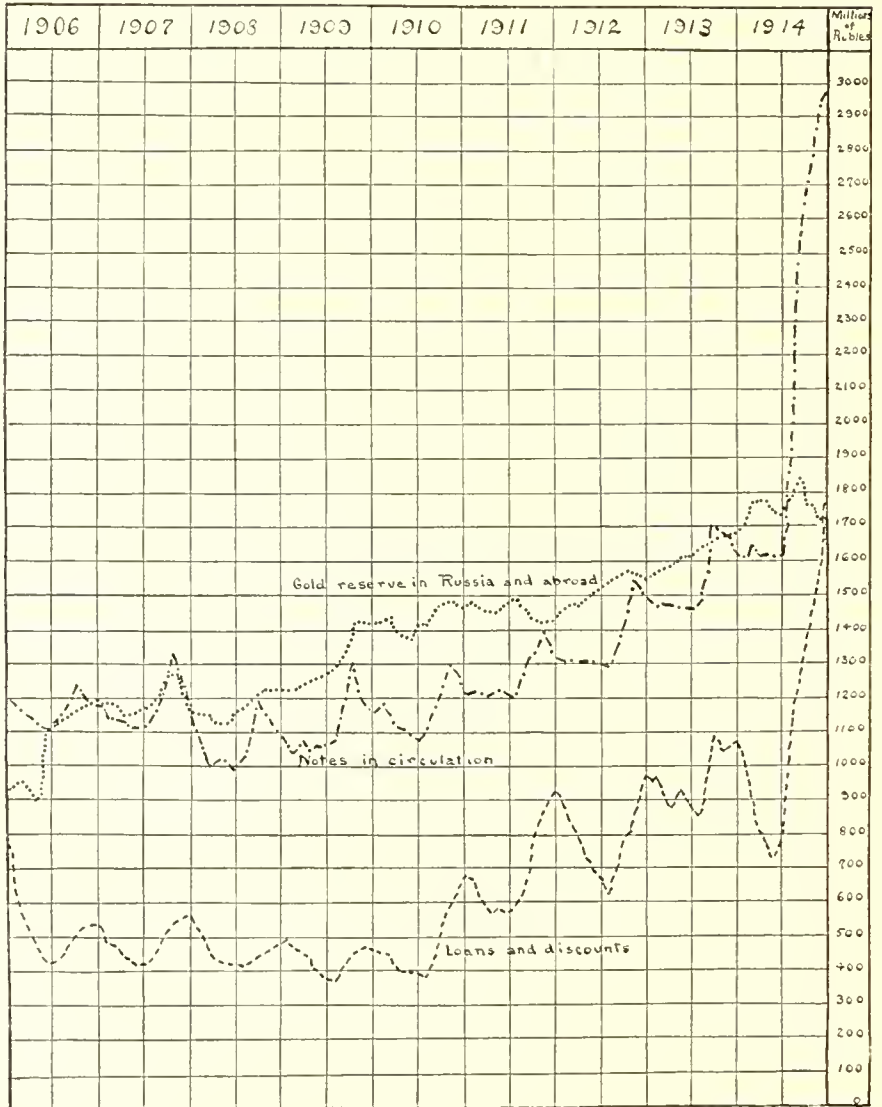
The year 1917 began with a strong campaign directed against the whole economic policy of the Government and particularly against its financial policy. *Promishlennost i Torgovlya* in its review of the year 1916 wrote: "The inflation of the paper currency continued with undiminished energy and the Minister of Finance endeavored to obtain wider powers for the issue of paper rubles, not through the usual legislative channels, but under Art. 87 of the Fundamental Law." Almost the whole press joined in an unanimous and clear statement of the opinion that without important political changes it was idle to hope that the financial and economic policy of the country would resume its normal course.

After the Revolution of February *Promishlennost i Torgovlya* (No. 8-9) gave the following summary of the position of the Russian currency, and its prospects for the future: "The paper ruble, now depreciated on foreign markets to the extent of some 50 to 60 per cent is a sad inheritance of the old régime. It will be a difficult task to bring under control the unruly ocean of some ten milliards of paper rubles. Let us hope that State loans will now assume a popular character, will become the principal investment of national savings and will save the ruble from further depreciation." What actually happened as a result of the Revolution was very different.

It may be asserted, however, that public opinion in Russia was genuinely concerned during the War with the problem of the stability of the national monetary system.

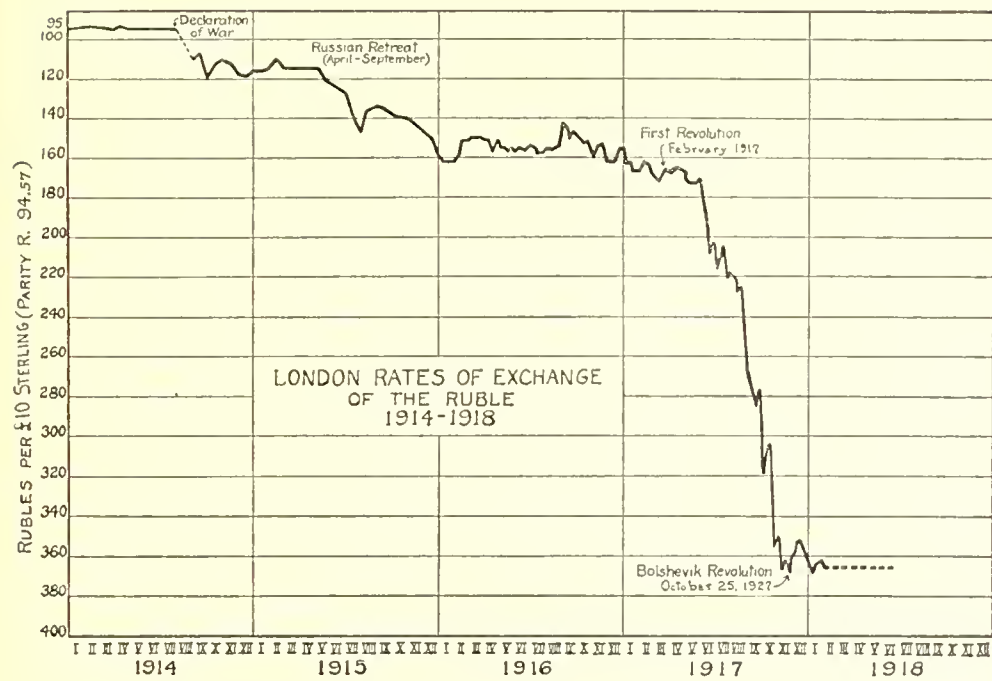
APPENDIX I

STATE BANK, 1906-1914: GOLD RESERVE, BANK NOTES IN CIRCULATION, AND LOANS AND DISCOUNTS



APPENDIX II

LONDON RATES OF EXCHANGE OF THE RUBLE
1914-1918



APPENDIX III

RATE OF EXCHANGE OF THE RUBLE

(18th October 1917.)

	<i>Latest quotations</i>	<i>Value of 1 paper ruble in gold copecks</i>	<i>Percentage devia- tion from par</i>	<i>Percentage of difference be- tween the quo- tations of the Settlement Department and of foreign markets</i>
<i>£ sterling:</i>				
London	340.	27.79	72.21	
Settlement Department	300.	31.52	68.48	3.73
<i>French francs:</i>				
Paris	76-81.	28.50	71.50	
Settlement Department	115.	32.60	67.40	4.10
<i>Dollars:</i>				
New York	13.75	26.72	73.28	
Settlement Department	6.31	30.80	69.20	4.08
<i>Swedish kroner:</i>				
Stockholm	35.	18.23	81.77	
Settlement Department	253.	20.58	79.42	2.35
<i>Danish kroner:</i>				
Copenhagen	40.	20.83	79.17	
Settlement Department	214.	24.34	75.66	3.51
<i>Finnish marks:</i>				
Helsingfors, quotation of the Bank of Fin- land	106-104.	39.	61.	...
<i>Quotations of the Settle- ment Department:</i>				
Swiss francs	146.	25.68	74.32	...
Italian lire	87.	43.10	56.90	...
Japanese yen	325.	29.80	70.20	...
Dutch florins	290.	26.94	73.06	...
Rumanian lei	37.50	100.	....	...

APPENDIX IV

AVERAGE LONDON QUOTATIONS OF THE RUBLE AND ADDITIONAL ISSUES OF NOTES INTO CIRCULATION DURING THE WAR

Parity: £10 = 94.57 rubles.

Amount of notes in circulation on 16th July 1914: 1,633.4 million rubles

<i>Periods</i>	<i>Average rate of exchange</i>	<i>Additional issue of notes during the period (millions of rubles)</i>
1st July 1914 to 31st December 1914	111.4	1,495
1st January 1915 to 30th June 1915	116.7	630
1st July 1915 to 31st December 1915	139.9	1,867
1st January 1916 to 30th June 1916	155.7	1,006
1st July 1916 to 31st December 1916	155.3	2,469
1st January 1917 to 30th June 1917	170.9	3,958
1st July 1917 to 29th October 1917	255.2	5,465

APPENDIX V

FATE OF THE GOLD RESERVE AFTER THE BOLSHEVIK REVOLUTION

To complete our survey of the changes in the Russian currency system, it may be useful to give a brief account of the events which took place after the termination of military operations against Germany.

Practically the whole of the gold reserve of the State Bank was usually kept in Petrograd. During the War, and especially when the capital was threatened by the enemy, it was decided to transfer the reserve to the interior—to Moscow, Samara, and Kazan. At the time of the Bolshevik Revolution only about one-quarter of the gold reserve was still in Petrograd. It is well known that the Bolsheviks agreed to all the conditions dictated by the Germans at the Brest-Litovsk Conference, including that which provided for the transfer to Germany of 245,564 kg. of fine gold, certain sums in notes, certain quantities of goods, and the bonds of a loan to be specially raised in Germany. The dates fixed for the dispatch of the instalments of gold were 10th September, 30th September, 31st October, 30th November, and 31st December 1918. Before the armistice which brought the World War to an end, Germany had actually received 93,536 kg. of fine gold, worth about 121 million rubles. In accordance with the conditions of the armistice, and with Article 259, clauses 6 and 7, of the Treaty of Versailles, this sum was surrendered to the Allies by Germany and was deposited with the Bank of France.

The gold reserve of Russia thus suffered a considerable reduction immediately after the Bolshevik Revolution. It was destined, however, to endure still greater vicissitudes in connection with the Civil War, then just beginning. Faced with the eastward advance of the Czecho-Slovakian Legions, the Bolsheviks concentrated the gold reserve at Kazan, transferring thither the gold hitherto kept at Samara. When forced to leave Kazan in August 1918 the Bolsheviks could not take with them the gold reserve, which amounted to about 492,000 kg., worth about 633.6 million rubles. This sum fell into the hands of the anti-Bolsheviks. At the end of August 1918 the gold was transferred by them back to Samara, and when the

Members of the Constituent Assembly moved to Ufa, was conveyed to that town. By that time, a Siberian Government was in existence, with which the Members of the Constituent Assembly opened negotiations. It was absolutely imperative for these two governments to come to some working arrangement, for the Siberian Government had no money, while that of Ufa had no army at its disposal. Owing to the pressure of the Bolshevik forces, the Ufa Government decided to withdraw to Chelyabinsk and to transfer the gold reserve there. On their arrival at Chelyabinsk, the Members of the Constituent Assembly went to look for a convenient place in which to deposit the gold they had brought with them, and finally decided to store it in the grain elevators. When, however, they returned to the railway station, they found, to their utter dismay, that the train which had brought the gold to Chelyabinsk had departed. It was discovered that in obedience to an order emanating from some unknown source, the train had been dispatched to Omsk, which was then the seat of the Siberian Government, and had safely reached its destination.

The short-lived coalition between the Members of the Constituent Assembly and the Siberian Government resulted in the formation of the "Directory," which, however, was soon superseded by Admiral Kolchak, as Supreme Ruler. In the first return published by the Omsk Office of the State Bank, which became the headquarters of that institution, the stock of gold was entered at a figure of 645,-256,387 rubles.

In the course of the Civil War, the Government of Admiral Kolchak expended a considerable part of the gold reserve on current government expenses, mainly in connection with the equipment of the army.

The Omsk Government obtained credit from an Anglo-American syndicate (Baring Brothers, Kidder Peabody and Co.), as security for which it shipped gold from Vladivostok to Hong-Kong and Japan. The total quantity of gold shipped in this way, both as security for credits and for sale, reached 217,038 kg. of the value of 279,580,835 rubles. Of this amount, 184,238 kg. or 237,257,815 rubles, safely reached their destination, while 32,800 kg. or 42,251,-020 rubles were seized by the notorious Ataman Semenov in transit to Vladivostok and detained at Chita. After the fall of Admiral

Kolchak, this gold was partly spent and partly confiscated by the Japanese; exact information as to its fate is still unobtainable.

As mentioned above, 184,238 kg., of which 32,800 kg. consisted of alloy of gold and silver, reached Vladivostok. The gold and silver alloy was left at the Vladivostok Office of the State Bank, while 151,438 kg. of fine gold were sold, or used to provide security for credit. According to the data of the former Deputy-Minister of Finance in the Government of Admiral Kolchak, M. Novitsky,¹ this stock was used as follows:

	<i>Rubles</i>
Sold to the French Government in May 1919 gold to the value of	2,661,185
Sold in May 1919 to the British Government	10,898,182
Sold in July 1919 to the British and French Governments	14,753,114
Sold in August to the Japanese Government	13,559,381
Sold in September to the Japanese Government	10,550,254
Sold in September to the French Government	15,839,381
	<hr/>
Total amount disposed of by direct sale	68,261,497
Deposited as security for credits:	
(1) of 30 million yen obtained in Japan	31,680,765
(2) granted by the Anglo-American Syndicate	90,860,437
(3) for the purchase of rifles and machine guns in the United States	4,224,102
	<hr/>
Total deposited as security	126,765,304

This account shows that the total expenditure made by the Government of Admiral Kolchak out of the stock of gold transferred to Vladivostok amounted to about 195 million rubles; no exact information is at present available with regard to the remainder, which amounted to over 80 million rubles.

When Admiral Kolchak withdrew from Omsk, the gold reserve of the State Bank, according to its own returns, amounted to 408,189,912 rubles. This reserve was put into a special train and ultimately reached Nizhneudinsk, where it was handed over to the Bolsheviks by the Czecho-Slovaks, in payments for their safe-conduct to Vladivostok. A small amount had previously been lost in a collision of trains at the Tatarskaya Station, and there is also some

¹ *Op. cit.*, in the collection of articles: *La Dette Publique de la Russie*, pp. 217 *sqq.*

reason to believe that part of the gold was stolen after the tragic death of Admiral Kolchak.

It will be seen, therefore, that of the former gold reserve of the State Bank, the Bolsheviks had taken possession of over 1,000 million rubles. Deducting from this amount the 121 million rubles surrendered to the Germans in accordance with the Brest-Litovsk Treaty, the sum actually at their disposal was about 900 million rubles.

This amount cannot have been increased to any considerable extent during the first years of the Bolshevik régime, though it is probable that the Rumanian gold reserve, worth over £12,000,000, which was transferred to Russia for safe custody, was added to the Russian reserve and spent with it. Meanwhile, very large expenses payable in gold have been incurred by the Soviet Government in its commercial, political, and secret relations with foreign countries. According to the computation of a Soviet expert² the excess of imports over exports between 1920 (when trade relations with Russia were resumed) and 1st January 1923 involved the expenditure of over 500 million gold rubles. Including the deliveries of gold stipulated in the treaties with Poland and Esthonia, amounting to 33 million rubles, and certain other expenses, the total reached 590-600 million rubles. It would clearly be impossible to estimate the sums spent in supporting the Communist movement in various countries, but the total expenditure on these activities is undoubtedly very large. It is impossible to say what part of the payments enumerated above was met from the gold reserve and what part from the fund that accumulated in the hands of the Soviets as a result of the confiscation of jewelry. It may be held, nevertheless, that about one-half of the remainder of the gold reserve was spent in 1923. An approximate idea of the present amount of the gold reserve may be gathered from the data published by the Economic Department of the new State Bank under the heading "gold coins and bars." The figure given for 1st March 1925 was 152,100,000 rubles.

² Article by M. Kaufmann in *Ekonomicheskaya Zhizn* (*Economic Life*), 10th January 1923.

APPENDIX VI

ASSETS

DISCOUNTS AND LOANS

Loans																										OTHER ASSETS									
Date	IN HAND				Gold reserve	Old drafts and foreign drafts	Foreign drafts belonging to the bank	Bills discounted and other short-term securities	Short-term Treasury bills	Government commercial bills	Special current accounts guaranteed		On goods	On documents	To institutions for small credit	Agricultural	Industrial	Handicraft and cottage industries	For purchase of agricultural machinery, etc.	Commissions paid in advance	Dish of Petrograd in Moscow	Paid-out bills	Other loans	Total of discounts and loans	Securities			Account of the liability and payment of other banks and institutions	Expenditure of the bank and other miscellaneous accounts	Account with the branches of the State Bank	Account with the Treasury and its branches	Balance	Date		
	Book notes	Gold	Silver	Small coins, stamps, etc.							By bills	By securities													On securities	Owned by the State Bank	Acquired for clients on commission							Account of the "Liberty Loan"	
1st January 1917	137,667	88,535	978	118,191	335,111	1,330,523	2,119,882		111,370	8,800,099			106,288	502,802	42,911	3,590	40,372	17,958	5,051		2,123	589	12,400		175	7,790,830	128,088	4,820		19,907	69,610		859,903	12,289,153	1st January 1917
8th January	136,024	86,864	899	117,318	341,203	1,387,300	2,150,398		116,966	7,103,828			99,432	498,478	51,780	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th January	120,882	88,738	916	115,228	325,291	1,386,610	2,151,307		114,882	7,120,512			102,658	576,988	51,842	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd January	109,708	86,188	935	111,679	311,510	1,386,753	2,130,877		113,508	7,275,878			98,776	570,988	51,842	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st February	135,236	88,175	940	123,238	317,589	1,387,890	2,140,383		123,351	7,387,021			108,928	582,910	52,194	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
12th February	122,609	85,594	927	121,347	308,077	1,389,453	2,140,301		123,109	7,840,394			103,022	567,405	53,091	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd February	117,006	86,673	937	118,578	323,191	1,389,166	2,140,916		120,655	7,012,024			105,507	575,450	51,926	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st March	108,190	85,038	917	120,196	313,581	1,389,458	2,140,953		119,033	7,138,184			97,989	545,029	52,059	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
8th March	102,790	87,538	939	119,681	317,758	1,389,106	2,141,021		118,033	7,882,032			95,252	527,270	52,802	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
10th March	102,193	89,915	1,037	120,813	317,768	1,389,595	2,141,148		116,919	7,738,141			102,029	541,509	52,149	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd March	109,814	88,794	1,009	123,681	321,298	1,389,820	2,141,036		111,226	7,389,905			95,292	542,785	53,185	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st April	109,103	86,881	1,058	120,085	316,877	1,389,951	2,118,883		113,629	7,493,077			93,454	540,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
8th April	106,126	87,806	1,079	121,448	318,199	1,389,951	2,118,883		113,629	7,493,077			93,454	540,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th April	133,412	89,816	1,150	120,823	315,231	1,389,959	2,118,790		113,629	7,493,077			112,880	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd April	119,489	90,187	1,178	121,354	322,108	1,390,101	2,118,790		113,629	7,493,077			112,880	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st May	117,858	88,073	1,216	117,898	325,050	1,390,101	2,118,810		113,629	7,493,077			112,880	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
10th May	109,792	87,736	1,307	116,226	315,111	1,390,095	2,118,800		111,122	7,116,226			111,122	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd May	119,588	89,023	1,336	122,029	321,061	1,390,148	2,118,801		111,588	7,053,321			111,588	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st June	110,692	90,726	1,369	116,602	321,889	1,390,150	2,118,801		111,144	7,182,127			111,144	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
8th June	139,258	92,167	1,423	128,172	336,020	1,390,510	2,119,085		113,098	7,462,375			113,098	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th June	155,200	88,185	1,455	126,586	317,621	1,390,721	2,118,990		113,098	7,462,375			113,098	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd June	168,063	89,001	1,405	127,429	335,103	1,390,861	2,119,613		113,098	7,462,375			113,098	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st July	158,811	89,221	1,651	121,812	369,528	1,391,214	2,119,317		111,146	7,035,399			111,146	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th July	159,629	89,811	1,778	121,656	375,907	1,391,588	2,119,398		113,407	7,039,190			113,407	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st August	159,808	86,911	1,876	124,106	362,780	1,391,771	2,119,398		115,153	7,038,596			115,153	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th July	116,917	85,370	2,036	122,181	300,434	1,203,218	2,208,016		116,971	7,116,632			116,971	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st August	120,636	86,940	2,046	122,809	332,329	1,203,217	2,208,016		122,956	7,116,632			122,956	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
23rd July	121,520	86,153	1,781	122,207	315,775	1,201,099	2,208,016		122,956	7,116,632			122,956	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st August	138,828	89,113	1,729	121,905	326,722	1,228,931	2,208,016		131,803	7,023,101			131,803	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
8th August	138,828	89,113	1,729	121,905	326,722	1,228,931	2,208,016		131,803	7,023,101			131,803	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
16th August	119,289	20,290	1,790	125,157	266,826	1,208,103	2,208,016		119,289	7,023,101			119,289	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
1st September	141,182	13,868	1,777	127,338	292,465	1,212,288	2,208,016		141,182	7,023,101			141,182	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907	69,610		859,903	12,289,153	1st January 1917
8th September	129,574	21,001	1,776	131,071	283,125	1,212,020	2,208,016		129,574	7,023,101			129,574	541,161	53,585	3,138	10,011	17,980	5,153		2,158	589	12,400		175	7,974,016	129,005	2,206		19,907</					

SUMMARY OF WEEKLY STATEMENTS OF ACCOUNTS OF THE STATE BANK FOR 1917 (in thousands of rubles):

DEPOSITS AND CURRENT ACCOUNTS

Date		BANK NOTES IN CIRCULATION	FOREIGN DEPOSITS ISSUED BY THE STATE BANK	SHARE CAPITAL AND RESERVE	DEPOSITS AND CURRENT ACCOUNTS										OTHER LIABILITIES										RATES OF DISCOUNT																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
					Current Accounts										Accounts of the branch offices of the State Bank and its branches										On bills																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
					Deposits		Special government accounts and deposits		Sundry persons and institutions		Railway company's clearing department		Total		Unclaimed balances		Commissions due		Interest on special accounts		Net profit		On bills		On bills		On bills		On bills		On bills		On bills																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
					Filled deposits	On call	Treasury	Special government accounts and deposits	Savings banks	Interest-bearing	Free of interest	Free of interest	Total	Unclaimed balances	Commissions due	Interest on special accounts	Net profit	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills	On bills																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																										
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APPENDIX VIII

SUMMARY OF MONTHLY STATEMENTS OF ACCOUNTS FOR 1912-1917 OF RUSSIAN PRIVATE BANKS

(Joint-stock Banks, Mutual Credit Associations and Municipal Banks)

(In millions of rubles)

Date	NUMBER OF INSTITUTIONS				ASSETS							LIABILITIES				
	Joint-stock banks associations	Mutual credit banks	Municipal banks	Total	Cash in hand	Deposits and current accounts	Discounts and loans	Securities	Correspondents' accounts	Other assets	Total	Capital account	Deposits and current accounts	Redeemed bills and loans against securities	Correspondents' accounts	Other liabilities
1912																
1st January	586	617	268	1,371	89.6	141.2	3,054.6	.....	.....	2,111.1	5,395.5	.....	2,331.9	618.2	.....	2,445.4
1913																
1st January	637	614	284	1,535	110.4	168.0	3,739.1	.....	.....	2,616.1	6,643.6	.....	2,895.2	690.9	.....	3,057.6
1st February	637	614	284	1,535	83.1	136.4	3,713.9	.....	.....	2,584.4	6,547.8	.....	2,911.9	663.9	.....	2,972.0
1st March	639	631	281	1,551	89.9	112.2	3,802.3	.....	.....	2,561.7	6,599.1	.....	2,930.1	683.8	.....	2,985.2
1st April	637	617	281	1,568	85.1	146.9	3,808.8	.....	.....	2,582.2	6,623.0	.....	2,980.2	654.8	.....	2,988.0
1st May	633	651	284	1,568	91.2	147.6	3,811.6	.....	.....	2,587.4	6,637.8	.....	3,013.0	627.1	.....	2,997.1
1st June	634	653	284	1,571	91.3	139.3	3,879.3	.....	.....	2,642.3	6,752.2	.....	3,012.0	671.7	.....	3,068.5
1st July	635	659	284	1,578	81.5	111.7	3,911.5	.....	.....	2,696.6	6,837.3	.....	3,106.2	651.8	.....	3,079.3
1st August	636	660	284	1,580	87.2	151.5	3,938.1	.....	.....	2,672.9	6,850.0	.....	3,120.6	620.7	.....	3,103.7
1st September	638	673	284	1,595	95.9	132.6	3,993.9	.....	.....	2,765.7	6,988.1	.....	3,108.8	726.8	.....	3,162.5
1st October	643	683	286	1,612	93.0	131.1	4,068.0	.....	.....	2,833.1	7,130.2	.....	3,097.3	779.4	.....	3,253.5
1st November	611	693	286	1,620	92.3	158.1	4,096.6	.....	.....	2,861.2	7,202.2	.....	3,175.8	702.7	.....	3,323.7
1st December	643	701	286	1,630	89.6	159.3	4,112.2	.....	.....	2,929.9	7,291.0	.....	3,222.5	681.7	.....	3,386.8
1914																
1st January	645	716	293	1,654	114.3	179.9	4,121.7	.....	.....	2,923.9	7,342.8	.....	3,231.3	715.5	.....	3,396.0
1st February	645	720	294	1,659	86.6	146.0	4,185.8	.....	.....	2,898.5	7,316.9	.....	3,274.6	697.1	.....	3,414.9
1st March	645	708	302	1,655	92.4	210.2	4,201.7	.....	.....	2,919.8	7,121.1	.....	3,451.5	517.3	.....	3,422.3
1st April	651	750	324	1,725	99.3	276.3	4,236.9	.....	.....	2,917.0	7,329.5	.....	3,581.9	513.9	.....	3,433.7
1st May	658	775	311	1,744	96.9	302.6	4,219.1	.....	.....	2,955.0	7,573.6	.....	3,618.6	487.0	.....	3,468.0
1st June	660	779	313	1,752	93.1	241.5	4,251.5	.....	.....	2,958.1	7,547.5	.....	3,630.5	505.0	.....	3,412.0
1st July	659	788	316	1,763	93.2	219.8	4,276.3	.....	.....	2,901.7	7,193.0	.....	3,591.3	515.5	.....	3,386.2
1st August	619	794	311	1,754	118.6	212.2	4,309.9	.....	.....	2,985.3	7,581.5	.....	3,393.3	881.2	.....	3,457.0
1st September	614	691	305	1,610	109.7	200.1	4,113.5	.....	.....	2,812.0	7,235.3	.....	3,305.0	855.9	.....	3,074.4
1st October	599	681	304	1,584	115.5	173.8	3,929.3	.....	.....	2,730.2	6,948.8	.....	3,234.5	697.3	.....	3,016.9
1st November	611	659	308	1,578	133.2	194.2	4,035.5	.....	.....	2,921.5	7,284.4	.....	3,411.7	696.2	.....	3,146.6
1st December	617	728	317	1,662	129.8	216.8	4,011.2	.....	.....	3,010.7	7,398.5	.....	3,168.9	724.1	.....	3,205.3
1915																
1st January	623	725	318	1,666	176.3	228.7	4,000.0	513.2	1,006.9	1,605.5	7,330.6	1,063.5	3,518.6	578.4	763.3	1,606.8
1st February	623	738	314	1,680	161.7	241.8	4,040.4	507.7	1,062.1	1,598.0	7,614.7	1,129.0	3,613.2	472.9	822.3	1,517.1
1st March	628	755	318	1,701	124.9	265.0	4,073.4	518.2	1,099.5	1,594.3	7,705.3	1,140.0	3,774.1	467.4	826.3	1,497.3
1st April	628	765	319	1,712	133.0	253.3	4,064.7	538.9	1,256.6	1,625.2	7,870.7	1,145.5	3,866.1	507.1	798.1	1,553.9
1st May	629	780	319	1,728	120.5	260.1	4,117.4	511.5	1,292.8	1,552.2	7,893.5	1,168.6	4,090.1	380.7	784.9	1,559.2
1st June	629	797	325	1,751	128.6	225.9	4,021.9	559.1	1,675.3	1,624.8	8,233.1	1,168.0	3,988.1	610.0	898.7	1,513.3
1st July	632	802	320	1,754	148.3	243.5	4,026.6	551.1	1,722.5	1,690.8	8,279.8	1,153.8	4,104.9	620.3	871.8	1,629.0
1st August	620	816	320	1,756	128.3	287.5	3,912.4	542.6	1,624.9	1,689.5	8,185.2	1,071.4	4,139.3	514.5	745.5	1,711.5
1st September	592	759	320	1,671	121.6	213.9	3,815.5	602.9	1,537.4	1,736.8	8,118.1	1,032.9	4,002.9	531.1	749.1	1,602.1
1st October	591	729	324	1,644	158.3	218.5	3,909.0	772.8	1,432.4	1,533.7	8,321.7	1,039.9	4,027.9	689.6	777.6	1,790.7
1st November	593	745	320	1,658	142.1	270.7	3,958.6	750.4	1,540.5	1,870.1	8,532.4	1,045.7	4,223.6	495.1	750.4	2,017.6
1st December	692	755	322	1,669	182.2	243.6	3,989.1	708.8	1,814.9	1,911.1	8,799.7	1,012.0	4,202.8	611.5	801.9	2,141.5
1916																
1st January	590	756	320	1,666	172.1	314.7	4,036.0	696.2	1,652.2	2,096.1	8,967.3	1,041.8	4,346.1	605.4	811.2	2,162.8
1st February	599	759	318	1,676	153.1	321.9	4,211.4	710.0	1,650.5	2,221.0	9,273.9	1,060.5	4,630.1	518.2	802.7	2,262.4
1st March	612	751	315	1,678	151.8	326.5	4,273.3	730.5	1,899.3	2,229.6	9,611.0	1,073.0	4,806.7	419.3	815.2	2,406.8
1st April	613	750	317	1,680	163.0	316.1	4,226.3	751.2	2,231.8	2,408.5	10,129.9	1,074.7	5,114.2	481.5	835.3	2,624.2
1st May	611	760	315	1,686	165.2	359.5	4,350.3	768.1	2,860.6	2,520.2	10,523.9	1,082.9	5,306.3	511.9	913.9	2,708.9
1st June	613	755	314	1,682	181.5	368.6	4,547.5	801.4	2,432.1	2,505.9	10,937.0	1,092.8	5,448.4	696.4	932.7	2,766.7
1st July	614	754	319	1,687	178.1	311.6	4,766.5	815.6	2,435.7	2,592.4	11,199.9	1,082.3	5,477.8	511.4	930.6	2,927.3
1st August	613	754	316	1,683	180.3	470.2	4,923.3	838.4	2,436.0	2,815.5	11,684.7	1,107.8	6,044.7	441.8	932.8	3,157.6
1st September	615	754	314	1,683	219.9	320.8	5,236.7	921.0	2,365.2	2,922.4	12,249.0	1,088.9	6,686.6	410.4	936.3	3,426.8
1st October	611	764	313	1,691	216.1	514.2	5,661.2	1,006.9	2,322.4	3,174.9	12,986.7	1,095.5	6,869.0	377.7	1,011.5	3,584.0
1st November	615	756	319	1,690	189.2	515.9	6,167.7	978.2	3,052.1	3,440.8	13,673.9	1,093.6	7,199.0	415.8	1,152.1	3,783.5
1st December	622	758	319	1,699	196.3	549.9	6,671.5	1,031.4	3,220.5	3,585.6	14,255.2	1,111.2	7,484.4	477.9	1,113.9	4,067.8
1917																
1st January	627	756	316	1,698	229.1	563.0	5,772.4	931.1	3,263.2	3,729.5	14,488.3	1,133.2	7,566.4	476.4	1,135.0	4,177.3
1st February	641	761	317	1,719	221.3	573.1	6,017.9	1,116.1	3,231.9	3,831.5	14,991.8	1,166.3	7,842.7	524.4	1,126.9	4,331.6
1st March	646	760	322	1,728	222.8	576.7	6,115.7	1,169.6	3,285.2	3,808.3	15,178.3	1,164.4	8,121.6	475.5	1,166.6	4,268.3
1st April	647	759	318	1,724	230.6	609.7	6,198.0	1,198.6	3,485.2	3,858.2	15,576.2	1,185.5	8,410.3	502.9	1,161.4	4,315.1
1st May	651	759	316	1,725	232.9	624.7	6,409.8	1,140.8	3,703.4	4,110.0	16,220.6	1,211.2	8,621.4	510.6	1,223.3	4,649.1
1st June	653	758	318	1,724	244.2	604.4	6,470.0	1,272.4	3,658.2	4,182.7	16,431.9	1,218.8	8,804.6	563.4	1,255.9	4,889.8
1st July	659	765	318	1,727	240.8	598.0	6,776.1	1,252.9	3,700.8	4,385.4	16,951.0	1,227.3	9,006.6	654.2	1,260.3	4,802.6
1st August	659	765	311	1,725	258.7	638.8	6,887.4	1,310.0	3,782.7	4,436.2	17,261.8	1,247.7	9,153.3	724.0	1,251.3	4,885.6

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